

BOARD BOOK ESSENTIALS

Checklists + Infographics + Topic Papers + Guides + Tools + Templates



This resource for CEOs and executive directors includes interactive tools, step-by-step guidance, infographics, topic papers, checklists, and other easy-to-use resources to share and discuss with your board throughout the year. By engaging in meaningful discussions with your board around these resources, you'll find yourself building a strong board—executive partnership that will affect all the work you do together to advance your organization and its mission.

WHAT'S INSIDE

DISCUSSION STARTERS

The resources in this section are items that are meant to be shared in advance of a board meeting, and then discussed at the meeting. They address many of the board's key roles and responsibilities.

- Building Trust
- Programmatic Oversight – How well are we doing?
- 9 Characteristics of a Mission Statement
- Where Is Race on Your Board's Agenda?
- Opening the Door: A Case Study
- Boards that Micromanage
- Common Board Shortcomings
- 18 Questions to Ask Your Board About Culture
- Six Characteristics of Effective Boards

SPECIAL TOPICS

These reference materials are great to use to address specific topics. Some are meant to be shared and discussed with your full board; others may be most appropriate for a specific board committee.

Board Composition, Recruitment, Orientation, and Education

- Board Member Orientation Checklist
- Board Recruitment Matrix
- Overcoming Hidden Barriers to Board Diversity and Inclusion
- Diversity that Builds a Culture of Inquiry
- Advocacy, Lobbying, and Political Activity
- The Board's Role In Advocacy: An Expectation For Engaged Leadership
- Stand for Your Mission Discussion Guide
- The Best Board Meeting I Ever Attended: Steps to Creating an Effective Agenda

Oversight and Accountability

- Welcome to Your Key Financial Statements
- 7 Questions to Ask when Reviewing the Annual Budget
- The Board's Role in Reviewing Form 990

- Red Flags, Yellow Flags: Are Your Financial Statements Trying to Tell You Something?
- The Board's Role in Supervising Investments – 3 Must-Dos
- 3 Audit Committee Must-Dos
- 10 Benefits of Dashboard Reporting

Assessing Performance

- Developing a Culture of Board Leadership through the Rigor of Assessment
- CEO Core Competencies – Is Your Board Assessing the Right Things?

Fundraising

- Fundraising Roles – Who's in Charge of What?
- Board Fundraising Policy: Key Elements, Practical Tips, and Sample Policy

Strategic Planning

- Elements of a Strategic Plan
- Shaping the Future Of Our Organization: A Strategic Planning Guide for Nonprofit Leaders
- Board Retreat How-To Guide

REFERENCE MATERIALS

There are some resources board members should have ready access to at any time. Here are some to add to your board book or portal.

- The Board's Role and Checklist of Board Roles and Responsibilities
- The Formula for Effective Governance Boils Down to 6 Essential Ingredients
- BoardSource Recommended Governance Practices
- Glossary of Governance and Board Leadership Terms
- The Nonprofit Board Members' Go-To-Glossary of Financial Terms
- Sample Board Member Job Description
- Sample CEO/ED Profile
- Nonprofit Organizational Lifecycle Assessment Tool

BUILDING TRUST

Board Governance is a collaborative effort. A productive collaboration relies on trust among team members and building this trust is critical to the board's ultimate success. Board members — as team members — must be able to rely on each other openly and without reservation. The chair, individual board members, and the board as a body must develop a trusting relationship with each other and with the chief executive to consolidate mutual efforts and objectives. In short, when trust is present, everyone is driven by a common goal and shares information openly, accepting positive interdependence.

GIVE AND TAKE

Honesty, respect, caring, integrity, and accountability: These are all elements closely tied to trust. In a group setting, members depend on each other; their individual and collective performance is based on reliability. Each member is committed to contributing to the common goal while entitled to expect the same from others. Trust is a two-way street — give and take must be on equal footing.

BUILDING TRUST IN THE BOARDROOM

A board is not a static entity — members come and go. Term limits continually test group dynamics. Under these circumstances, a board has a challenge to create a culture of trust and loyalty that survives the flux of membership. New members need to be incorporated in the team from the first meeting on. This may mean their taking an active approach to board participation in order to become fully integrated. By accepting assignments and following through, new members build their own reputation as a trustworthy peer.

This culture of trust is present when board members feel free to debate, question, openly examine, and even argue with each other's points of view without turning the discussion into — or perceiving it as — a personal attack. Differing opinions should be a welcomed tool to get to the heart of the matter under consideration. Respect for each other's contributions is the true foundation for professional reliance and interdependence.

Trust in the boardroom also assumes that appropriate confidential issues remain classified. Without that basic principle, the reputation of the organization may be endangered, openness of deliberation may be compromised, and individual board members may worry about what not to say rather than participate in a free exchange of ideas.

BOARD AND THE CHIEF EXECUTIVE: BUILDING AND MAINTAINING TRUST

The board and the chief executive are connected by the need to support each other in their respective roles. Board decisions are deficient without the inside professional perspective that the staff leader provides. The board must be able to trust that information it receives is timely, accurate, unfiltered, and includes all the elements that allow it to make educated and wise decisions. The board has the fiduciary duty to oversee the activities in the organization. In that capacity, it needs a healthy dose of constructive skepticism that is reasonably balanced with trust in the integrity and competence of the chief executive to avoid intrusiveness and micromanagement.

The chief executive needs to feel empowered and trusted as he or she engages in accomplishing the mutually accepted goals without the board needing to second guess management actions. Equally, the chief executive must be able to count on the board's support with confidence. He or she must be able to go to the board for guidance, direction, or protection if a situation so demands without losing face. Unhindered communication builds trust between the board and the chief executive, and that trust must be earned.

BUILDING TRUST

TRUST IN THE ORGANIZATION

Every tax-exempt organization must earn the trust of its constituents. The board has the responsibility to ensure that the donors, customers and clients, staff, and any other stakeholders — including the general public — can feel confident that the organization is focused on its mission, is efficient in allocating its funds, and is able to show that it makes a difference for the public good. The board must ensure that reporting is guided by appropriate transparency and that all the necessary processes and procedures are employed to achieve this: making the Form 990 easily available, sharing financial statements, projecting the organization truthfully in its materials and brochures and so forth.

MECHANISMS FOR BUILDING TRUST

As the board incorporates trust in its role as the organization's representative, in its own methods of operating and in its relationship with the chief executive, it should keep the following in mind:

- Disclosing and making access easy to organizational documents describing financial and programmatic achievements are essential to gaining the public's trust.
- Transparency of processes for appointments for board positions and hiring the chief executive eliminate concerns about unfair treatment or discrimination.
- Incorporating a culture of positive dissent in the boardroom encourages board members to share opinions and accept counter-comments without turning issues into personal conflicts.
- Regularity of executive sessions removes secrecy from these meetings that allow board members to openly and in confidence discuss internal issues without staff present.
- Regular KPAWN (what Keeps the President AWake at Night) meetings provide a safe, trusting environment for the chief executive to share personal and position-related challenges with the board.
- Annual chief executive performance evaluations allow for honest feedback and assessment of achievements under fair conditions if they are based on mutually agreed upon goals.
- Board self-assessment builds trust and confidence among board members as a collective effort to judge how the team is working together.

CEO & STAFF
LEADERSHIP



BOARD
MEMBERS



POTENTIAL FOR EXCEPTIONAL PROGRAMMATIC OVERSIGHT

One area where board members can have a tremendous impact on the nonprofit organization they govern is through their role of **programmatic oversight**. Done in tandem with the CEO and staff leadership, monitoring and strengthening an organization begins with ensuring that current and proposed programs and services align with the organization's stated mission and purposes. What an organization actually does, and how well it does it, should be at the heart of board interest.

WHAT DOES A BOARD LOOK LIKE THAT IS PRACTICING EXCEPTIONAL PROGRAMMATIC OVERSIGHT?

Good governance requires the board to balance its role as an oversight body with its role as a force supporting the organization. Becoming an exceptional board takes hard work. Exceptional boards add active engagement and independent decision making to their basic and legal oversight function. They are boards that are results-oriented. They measure the organization's advancement toward mission and evaluate the performance of major programs and services.

Management is closer to the programs, operations, and the field than the board, which makes it challenging for boards to provide strategic guidance and oversight. In practice, the CEO is often the lead partner in these areas, and it is incumbent upon management to provide the board with regular, appropriate information and to engage the board in high-level strategic issues and decisions.

Board members: Be curious.
Chief Executives: Inform and engage.

In short, it's the strong partnership between the CEO and the board that is critical to providing exceptional program oversight.

Use the tool on the following page as a resource to help start and guide a strategic conversation about the important roles both board and staff play in programmatic oversight.

HOW WELL IS YOUR BOARD PROVIDING PROGRAMMATIC OVERSIGHT?



DEVELOPING – *LIMITED*

- ☐ Board members display limited knowledge or varied understanding of the organization's programs and services.
- ☐ The board receives insufficient information related to the organization's programs and services, including changes in programs and services.
- ☐ The board is not proactive in ensuring the organization has adequate infrastructure (staff and volunteers, facilities, technology, etc.) to operate the programs and deliver the services.



ADEQUATE – *PROFICIENT*

- ☐ Board members display knowledge of the organization's programs and services.
- ☐ The board receives sufficient information related to the organization's programs and services, including changes in programs and services.
- ☐ The board ensures the organization has adequate infrastructure (staff and volunteers, facilities, technology, etc.) to operate the programs and deliver the services.



EXCELLING – *EXCEPTIONAL*

- ☐ The board has mechanisms in place to monitor the quality of the organization's programs and services.
- ☐ The board has standards against which organizational performance is measured.
- ☐ The board has the ability to measure the impact of critical programs and initiatives.

Resources:

[The Source: 12 Principles of Governance That Power Exceptional Boards](#)

[The Handbook of Nonprofit Governance](#)

[Leading with Intent: A National Index of Nonprofit Board Practices](#)



A NONPROFIT'S MISSION STATEMENT COMMUNICATES THE PURPOSE OF THE ORGANIZATION; it describes the social sector need that is being met and what the organization is doing to meet that need. A mission statement also should set the stage for helping to develop fundraising strategies, and to help sustain the public's support and confidence.

Board members (and staff) should be periodically assessing the organization's mission statement and updating it as necessary to avoid misalignment of the organization's purpose. It should inspire, compel, and encourage those you serve! But this can be harder than it sounds. Even though every nonprofit has a mission statement, many don't inspire involvement and keep board and staff members motivated.

BoardSource recommends keeping in mind these nine characteristics of compelling mission statements when creating or revising your mission statement. Make sure yours is a 'mission to remember.'

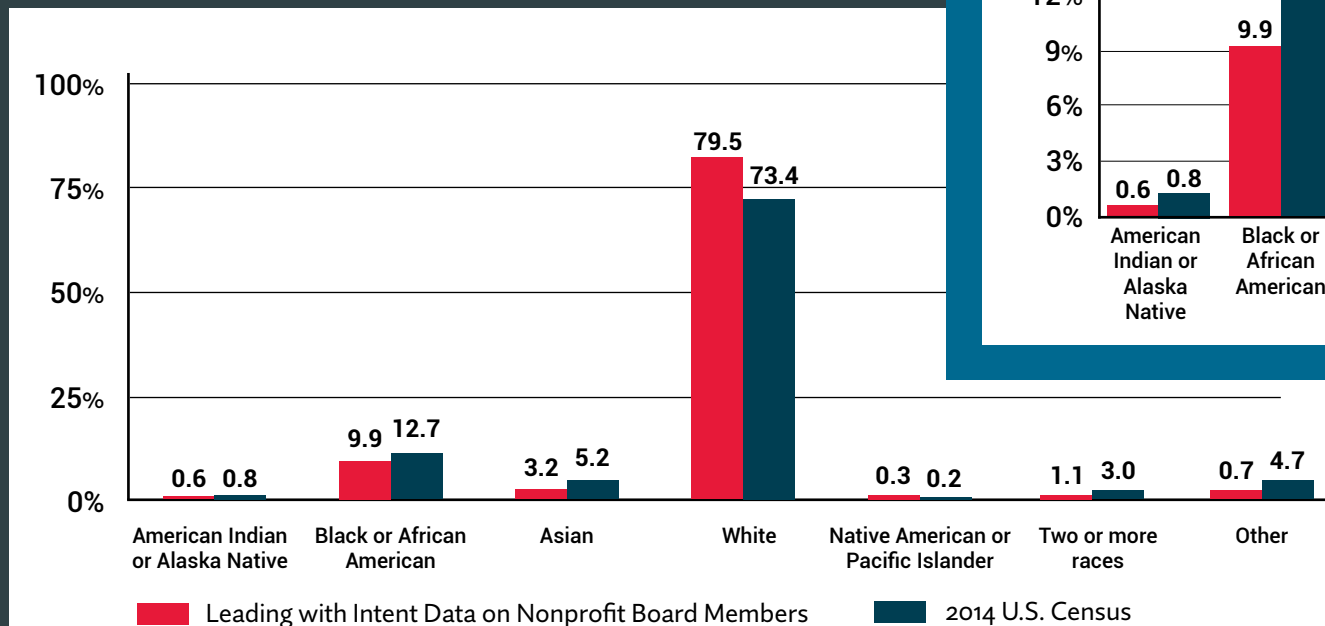
WHERE IS RACE ON YOUR BOARD'S RECRUITMENT AGENDA?

To succeed in an increasingly diverse world, nonprofit organizations need to remain relevant and connected to the communities they serve. Their leaders — board members and chief executives — need to represent diverse points of views. To what extent is this happening?

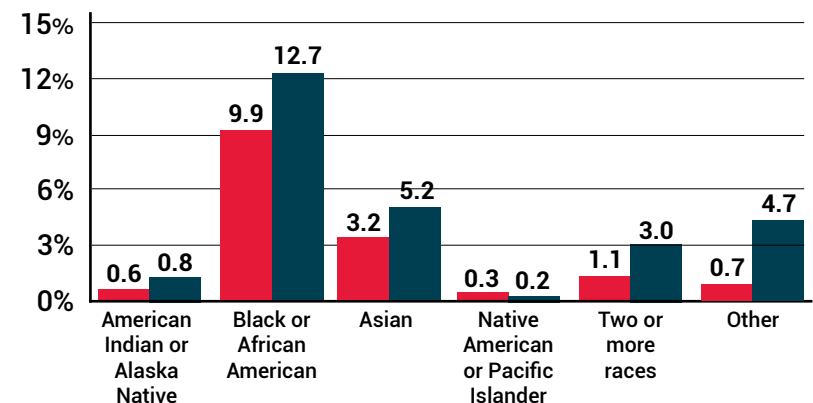
The charts below show the racial demographics of nonprofit boards (based on data from BoardSource's 2015 *Leading with Intent* survey) compared to figures for the U.S. population as a whole in the 2014 U.S. census. As the charts indicate, people of color remain underrepresented in nonprofit leadership, compared to their representation in society. CEOs report being the least satisfied with their board's racial/ethnic diversity, but also see it as most important to their organization's mission.

According to the 2014 U.S. census, 73% of Americans are White, compared with 80% of board members, according to *Leading with Intent* survey respondents. Similarly, the U.S. census reports that 12.7% of Americans are Black or African American. Only 9.9% of nonprofit board members, however, are Black or African American. Furthermore, 25% of all boards remain all White. While many boards discuss the importance of diversity, there may be a lack of concerted planning and follow through towards increasing minority representation. Only 56% of CEOs surveyed report that their board has reviewed and revised its recruiting efforts, and only 19% indicate that the board has developed an action plan to increase diversity specifically.

RACIAL DEMOGRAPHICS OF NONPROFIT BOARD MEMBERS COMPARED TO U.S. CENSUS



RACIAL DEMOGRAPHICS OF NONPROFIT BOARD MEMBERS COMPARED TO U.S. CENSUS (NOT INCLUDING WHITE)



See inset for detail of non-white demographics.

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WHERE IS RACE ON YOUR BOARD'S RECRUITMENT AGENDA?

As your nonprofit leadership considers increasing the racial and ethnic diversity of your board of directors, here are a few questions to think about.

Why do we want to diversify our board? How will a diverse board enhance our organization?

Recruiting more diverse board members requires a strong commitment on behalf of every member of the organization's leadership. While the nonprofit sector has seen modest progress in increasing diversity among board members (people of color on boards increased from 16% in 2010 to 20% in 2014), diversity is more than a quota or numbers game. It also requires inclusive policies, practices, and behaviors that nurture and value different perspectives and experiences when conducting board business and discussing strategy.

Most CEOs report that their boards have discussed the importance of expanding board diversity (74%) and actively recruited members from diverse backgrounds (80%). Yet only 56% report that the board has reviewed and revised its recruiting efforts, and only 19% indicate that the board has developed an action plan to increase diversity.

What population does your organization serve? Is that population represented on the board? A diverse board sends a message and sets a powerful example about the organization's values. Having board and staff leaders who reflect society and, more specifically, the organization's constituents, is important in understanding constituent needs, cultivating community connections, and establishing credibility.

What processes do we have in place to recruit diverse board members and to retain new members?

More work must be done to turn well-intentioned policies into more inclusive boards. To support greater engagement, boards should commit to inclusion by establishing written diversity policies, developing intentional plans to recruit diverse board members, providing equal access to board leadership opportunities, and paying careful attention to social inclusion practices. Your existing minority board members can be your greatest resource in terms of identifying the success factors that got them on your board, and the barriers they may have encountered on the way, which need to be removed.

How can we recruit diverse board members who will have a positive impact on our board?

Are there members of the community your organization serves who have an interest in serving on the board? Be sure your recruitment and orientation policies are established and have a measured record of success to ensure you can identify the right candidates – and the institutions or pathways that produced them – and provide them with the best information and materials to help them understand what board service involves and start off their board service on the right foot.

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OPENING THE DOOR

A Case Study

The waiting room of the 15th Street Clinic was crowded with patients in various states of health and sickness. The free clinic was situated in an area of the city densely populated with apartment buildings and housing projects. Some of the clinic's patients had lived there for years, while others were newly settled in the city or newly immigrated to the country. The clinic had opened only a year ago, and business, sadly, was booming.

Dr. Sarah Goldberg opened the door of the clinic and walked purposefully through the waiting room into the hallway and back toward the small patient conference room where the 15th Street Clinic held board meetings.

George Setzer, a social worker whose cases included a number of the clinic's patients, was the next board member to enter the room. Following George was Rebecca Hale, an associate pastor at a church downtown, who was talking with John Mitchell, an assistant principal at a city high school.

Sarah decided to start the meeting and turned the floor over to George, the board secretary, to read the minutes from the last meeting. While George talked, Sarah looked around the room. With the exception of John Mitchell, who was African-American, the faces she saw were very similar. They were all white, with a few wrinkles and a gray hair here and there. Sarah remembered the scene in the waiting room, a sea of people of all ages who were speaking several different languages. She couldn't ignore the disparity between the group assembled here and those they were making decisions for in the waiting room.

"Did any of you notice how many languages were being spoken in the waiting room when you walked in?" asked Sarah. "If that many of our patients aren't English speakers, maybe we should have someone in here to represent their interests."

"Do you think they could make a valuable contribution?" asked Rebecca. "I doubt many of our clients have experience on boards."

"They could learn," said Sarah simply. "Anyone could learn how it works. I think we could benefit from their perspectives. Go out into the waiting room and see if anyone sitting there looks like us. We would be better able to help them if we had a clearer picture of their needs." A few board members looked uncomfortably at each other or the table.

"What are we supposed to do, go out into the waiting room and ask for volunteers to sit on the board?" asked George. "I'm sure those people wouldn't want to be on our board. They're busy and, at the moment, they're sick."

"I don't mean just patients when I say we need better representation," Sarah explained. "None of us lives in this community, and only one of us works here. We ought to be better informed about what happens in this neighborhood so we can better serve its residents."

Another board member spoke up. "But where do we find people who can give us the viewpoint you want and are qualified to do the things we do — raise money, review the budget, and make tough decisions?"

Everyone looked at Sarah for an answer. She didn't have one, yet.

What should the board do?

OPENING THE DOOR

A Case Study

QUESTIONS ABOUT THE CASE STUDY

How can the board identify new members who can make a meaningful contribution to current board work (raise money, review the budget, make tough decisions, etc.)?

Diversifying the board should be done for the purpose of better serving the community and the organization's mission, not out of a sense of guilt or discomfort over the composition of the board. In identifying new board members, it is important to have an established recruitment process. A [Board Recruitment Matrix](#) and [Board Candidate Rating Form](#) are helpful tools to select individuals with the right areas of expertise who can fit in with current board members and make meaningful contributions to the organization's policies and practices.

What policies should the 15th Street Clinic put in place following the recruitment process to ensure the new board members are equipped for success?

A good year-round board development process, including recruitment, orientation, training, and evaluation, is important not only for the sake of diversity but for the effectiveness of all board members, especially in a young organization such as this one. All board members need real responsibility, with clear, up-front expectations and information. The board should examine any possible barriers to participation, such as language, meeting times, transportation, or financial expectations.

Is simply recruiting diverse board members enough to change the culture of the 15th Street Clinic board? If not, what more could be done?

Meaningful diversity requires having different voices and faces around the board table and then creating a culture of inclusion. Functional inclusion is characterized as policies, structures, practices, and processes designed to increase the inclusion of individuals from diverse or traditionally marginalized communities. Social inclusion occurs when individuals from diverse backgrounds participate fully in the interpersonal dynamics and cultural fabric of the board. Both social and functional inclusion are necessary to maintain diversity on a nonprofit board.

Is there a way the 15th Street Clinic can increase diversity without recruiting new board members?

Board membership is not the only way to involve people who have perspectives, skills, or resources the organization needs. People in the community can serve as volunteers, on committees, or as staff. Some volunteers may emerge as good board prospects. Advisory committees could be a vehicle either for better understanding the neighborhood and the broader issues (medical, social, or legislative) that affect the clinic, or for involving high-profile or resource-connected individuals without their having to serve on the governing board. To ensure that the clinic is truly serving the people of the community as well as meeting its organizational needs, greater board diversity is just one step.

BOARDS THAT MICROMANAGE

Before joining It is not always easy for a board to see the line between management and governance. Board members need to consider themselves overseers, not implementers. Monitoring activities in the organization can be facilitated by clear reporting guidelines and deliberate clarification of the role of the board and the staff. When boards overstep the line between governance and management they can easily become micromanagers.

WHAT IS MICROMANAGEMENT?

Micromanagement usually refers to a manager who is paying too much attention to details and is not focusing on the big picture. A micromanager is not able to delegate but feels obliged to get involved in the actual implementation of the work. When a board micromanages it steps out of its governance role and gets caught in the actual operations of the organization. It forgets that the chief executive is responsible for daily management according to the guidelines set by the board. Boards that micromanage want to both set strategic direction and actively oversee the implementation of the details.

WHY DO SOME BOARDS MICROMANAGE?

- Governing does not usually create immediate rewards. Strategic developments take time to show results. Operational tasks often produce faster tangible outcomes and personal satisfaction.
- Sometimes it is difficult to differentiate between governance and management. Particularly in organizations with small staff, board members can easily get drawn into the daily operations.
- Board members may not understand their roles correctly. They likely are involved in management issues in their regular jobs — and that is what they know best.
- The board is missing strong leadership helping it focus on strategic issues.
- A chief executive steers the board astray by bringing management issues to the board for approval.
- The chief executive does not provide the board with adequate information, forcing the board to demand additional detailed reports.
- The board is not confident in the chief executive's ability to manage the organization.

WHEN IS THE BOARD MEDDLING IN MANAGEMENT ISSUES?

Here are examples when the board is getting too involved in management issues. It wants to:

- Approve the choice of vendors, office equipment, software, or office furniture
- Participate in staff hiring and defining job descriptions (besides the chief executive's)
- Approve individual staff salaries
- Verify receipts and invoices
- Contact staff members directly for information — without explicitly being invited by the chief executive
- Have a key to the office to be able to come and go at will (unless because of small staff board members are involved in helping out)
- Create committees that duplicate staff work
- Send a board representative to staff meetings
- Publicly second-guess the chief executive's decisions

WHAT CAN THE CHIEF EXECUTIVE DO?

When the board oversteps its boundaries, the chief executive needs to discuss the issue with the chair and work out a solution. The chair must remind other board members of their roles and how to communicate with staff. If the chair is micromanaging, the chief executive still needs to address the problem directly and remind the chair of the different responsibilities they both have. The chief executive can prevent the most flagrant board interventions by being

BOARDS THAT MICROMANAGE

proactive and not bringing detailed administrative issues to the board's attention and by ensuring that the board receives regular and concise information.

ALL-VOLUNTEER ORGANIZATIONS

All-volunteer organizations have a special challenge in defining the board's role and avoiding micromanagement. When there is no staff, the board has to divide its time between governance issues and carrying out programmatic and administrative duties. This works out best when there is a clear distinction between the functions of the full board and the individual board members. The full board acts as the strategist. The board delegates specific tasks to individual board members who follow the guidelines set by the board.

Micromanagement can be avoided when each board member is aware of which hat he or she is wearing at each moment. A board member must be able to differentiate between drafting guidelines as a group member and then allowing a colleague to finish a task independently as assigned by the group.

WHAT IS NOT MICROMANAGEMENT?

When a board hires a competent chief executive, it already has adopted the basics of role differentiation between board and staff. Delegating management duties to the chief executive also assumes that the board clarifies job duties. Like any supervisor, the board is there to support the manager, set performance expectations, and challenge him or her to propel the organization forward. How the staff gets its work done is the responsibility of the chief executive and how the board manages its own tasks is the responsibility of the chair. In a productive partnership the chief executive uses the board as a sounding board. The two end up formulating strategic decisions together while leaving the details of implementation to appropriate individuals.

References: [*Govern More, Manage Less*](#)

Common BOARD SHORTCOMINGS

What are the main weaknesses, omissions, mistakes, flaws, bad judgments, and sins that a board or an individual board member can commit? The following list focuses on how a governing board can lose its way.

1. VEERING OFF THE MISSION

The most important guideline for a board on all decision making is the mission statement. If the mission is not central at every board meeting, it is easy to lose focus on the true purpose of the organization.

Example: An educational organization for youth accepts a generous grant to build a sports facility for young people.

2. COMPLACENCY

A core obligation of every board member is participation. Some symptoms of complacency might include board members who take the easy way out, ignore the initial commitment, disregard the responsibility that comes with being a board member, fail to ask questions, miss meetings, and put off assignments.

Example: A board member does not know how to analyze financial statements. Instead of asking questions, he votes with the majority.

3. MISGUIDED MOTIVATIONS

Board members must always think of the organization first. Allowing personal preferences to affect decision making places the organization in a secondary role in a board member's mind. Misguided and unethical motivations, undeclared conflicts of interest, and the pursuit of personal benefit may endanger the organization's tax-exempt status.

Example: A board member recruits an out-of-work relative to run the organization.

4. MULTIPLE VOICES

A board only has authority as a group. Boards speak with one voice, which is formulated through deliberation. Individual board members are bound by the collective decision. Differing opinions need to be resolved in the boardroom, not declared outside to constituents, the media, or customers.

Example: A board member is interviewed by the press and advocates her own defeated solution to a crisis situation.

5. MICRO-MANAGING

One of the key duties of a board is to hire a competent chief executive to run daily operations. Part of this duty assumes that there is a valid job description and a performance evaluation process in place. The board's role is to oversee that the organization is well run; not to interfere in the domain of the chief executive.

Example: The board insists on being involved in choosing a new computer system for the organization.

6. LIMITLESS TERMS

Every board must accept and even thrive on change. New perspectives and different ideas keep the board and organization moving forward. Term limits can help the board avoid stagnation.

Example: Fearful of losing control, the founding board of an organization has been governing for 15 years.

Common BOARD SHORTCOMINGS

7. LAWLESS GOVERNANCE

Nonprofit tax-exempt organizations must heed federal, state, and local regulations, as well as their own bylaws. It is the board's role to make sure that all laws are respected. The board needs to assure that the organization files its Form 990 correctly and on time; that employment taxes are withheld regularly; and that official documents are saved appropriately. If the board fails to oversee respect for these regulations and the creation of appropriate policies, it may become liable for wrong doings.

Example: To get through a temporary financial crunch, the CEO decides not to pay payroll taxes during several months. The board is unaware that this is happening.

8. NO SELF-ASSESSMENT

By studying its own behavior, sharing impressions, and analyzing the results, the board is able to lay the groundwork for self-improvement. Failing to assess its own performance, the board is unable to define its strengths and weaknesses. As a by-product, it can also enhance its team spirit, its accountability, and its credibility with funders and other constituents.

Example: Morale is low, attendance is sporadic, and the chair has no clue about how to energize his board.

9. LACK OF SELF-IMPROVEMENT

Self-improvement is one of the innate consequences of self-assessment. Regular self-assessment is a futile process if it does not address apparent weaknesses in a board and result in structured self-betterment. Boards, which do not provide learning possibilities for their members, miss opportunities and many utilize their members' capacities inefficiently.

Example: Board members have never seen individual job descriptions and are not familiar with their legal obligations.

10. KNOTTED PURSE STRINGS

Asking for and giving money are natural aspects of being a board member in most 501(c)(3) charities. Boards that are responsible for fundraising, yet don't have a 100 percent personal contribution rate, have failed the ultimate commitment test. If the board is not supporting the organization whole-heartedly, how can it convince others to do so?

Example: A board is not able to reach consensus on the personal contribution policy. It becomes divided due to feelings of unfairness and lack of commitment.

References: [Ten Basic Responsibilities of Nonprofit Boards](#); [Board Fundamentals: Understanding Roles in Nonprofit Governance](#)

18 QUESTIONS

to Ask Your Board about Culture

A culture that discourages dissent, degrades trust, or oppresses certain voices can lead to a board that makes poor decisions. A “culture of inquiry,” on the other hand, includes the following:

- a sense of mutual respect, trust, and inclusiveness among board members
- the capacity to explore divergent views in a respectful rather than adversarial manner
- a willingness to gather relevant information to inform decisions
- equal access to information
- the presence of active feedback mechanisms that help the board engage in continuous improvement
- an individual and collective commitment to decisions, plans of action, and accountability to follow through on the board’s agreements

Boards that foster a culture of inquiry are not afraid to question complex, controversial, or ambiguous matters or look at issues from all sides. A healthy culture of inquiry promotes thoughtful decision making, even when the decisions are tough ones. When dialogue, candor, and dissent are all part of group dynamics, board members master the skills of listening, dissecting the issues, and responding thoughtfully, truthfully, and in the best interests of the organization. Learning and information gathering are important ingredients in a culture of inquiry, since decision making and accountability depend on board members’ confidence that they are knowledgeable about various sides of an issue. Furthermore, board members in a culture of inquiry don’t accept easy answers. Vigilance is part of the culture, and board members are aware that difficult questions need deliberation, and that situations that seem trouble-free may encompass deeper, more complicated issues.

Use these 18 questions to examine the way that your board conducts business so that you can nurture a culture of inquiry.

1. Do board members receive meeting materials in advance?
2. Are board members willing to ask for additional information to make decisions?
3. Do your board meetings provide opportunities for education?
4. Are board members discouraged from gathering information from outside sources when it would inform the board’s decisions on important and complex issues?
5. Are board members reluctant to voice their concerns before reaching a collective decision?
6. Do all board members speak at meetings, or do a few board members tend to dominate conversation?
7. Do board members chronically interrupt each other?
8. Do board members feel uncomfortable with questioning long-held assumptions of board or staff members in the room?
9. Are differences of opinion treated as conflict that needs to be either quelled or resolved?
10. Do board decisions spark conversation, or do they generally pass their votes with little to no explanation?
11. Does your board regularly set aside time for board members to get to know one another?
12. Do you take time to celebrate organizational successes with your board?
13. Do your board meetings offer opportunities for strategic thinking and long-term decision-making?

18 QUESTIONS

to Ask Your Board about Culture

14. Does your board chair ensure that all board members have opportunities to serve in capacities that interest them, whether or not they overlap with professional skills?
15. Are board members encouraged to generate alternative courses of action or examine the potential consequences of high-stakes decisions the board is called on to make?
16. Do you periodically distribute meeting evaluations to ensure that board members feel they are engaged on the topics that you cover?
17. Once a decision is made, do individual board members challenge the decision-making processes or outcome in public?
18. Do you conduct exit interviews of departing board members?

A culture of inquiry is not a tool or a task, but a style of governing. Is a culture of inquiry something that any board can develop? Yes, but it's impossible to change the culture without the presence of individuals (ideally the chief executive and the board chair) who truly serve as role models and provide the tools for a culture of inquiry. Can a culture of inquiry be maintained once it is established? Yes, but it is an ongoing process, not an intermittent task. Take the answers to these questions to help you begin the journey toward making your board as effective as possible.

Resource: [Culture of Inquiry: Healthy Debate in the Boardroom](#)

6 Characteristics of EFFECTIVE BOARDS

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6 Characteristics of EFFECTIVE BOARDS



Researchers Thomas Holland, Barbara Taylor, and Richard Chait worked for several years to determine why some nonprofit boards excel and others do not. They had three questions in mind as they conducted this research:

1. What characteristics define and describe effective boards of trustees of independent colleges?
2. Do the behaviors of effective and ineffective boards differ systematically?
3. What is the relationship, if any, between board effectiveness and institutional performance?

They concluded, among other things, that:

1. There are specific characteristics and behaviors that distinguish strong boards from weak boards, which were classified into six dimensions of effective trusteeship.
2. There is a positive and systematic association between the board's performance, as measured against these competencies.

Those six characteristics of effective boards that emerged as a result of interviewing several hundred boards and chief executives and surveying over 1,000 more, are highlighted here. Developing these characteristics in a board will help it govern more and manage less.



CONTEXTUAL

Effective boards understand and take into consideration the culture and norms of the organizations they govern. They adapt to the unique characteristics and culture of the organization and its staff. They rely on the organization's mission, values, and traditions as guides for their decisions. They act so as to exemplify and reinforce its core values and commitments. Try the following:

- Orient board members with an explicit introduction to the organization's values, norms, and traditions.
- Invite former members, administrators, and living legends to convey the organization's history.
- Discuss the concepts of shared governance, collegiality, and consensus with the organization's current leaders.
- Review the organization's hallmark characteristics and basic values that set it apart from competitors.

In advance of a retreat, the board of a liberal arts college responded to an online survey that posed a number of questions, including: "What is our greatest comparative advantage today? What will be 10 years from now? What is our greatest comparative disadvantage today? What will it be 10 years from now? What values do we hold most dear that we will not sacrifice at any cost?" During the retreat, the board met in small groups to discuss the results and determine steps the board could take to ensure that the institution remains competitively strong.

6 Characteristics of EFFECTIVE BOARDS



EDUCATIONAL



Effective boards ensure that their members are knowledgeable about the organization and the board's roles, responsibilities, and performance. They consciously create opportunities for board education and development and regularly seek information and feedback on the board's own performance. They pause periodically for self-reflection, to assess strengths and limitations, and to examine and learn from the board's successes and mistakes. This includes doing the following:

- Set aside some time at each meeting for a seminar or workshop to learn about an important matter of substance or process or to discuss a common reading.
- Conduct extended retreats every year or two for similar purposes and for analyzing the board's operations and its mistakes.
- Meet periodically with board leaders from similar organizations.
- Rotate committee assignments so members can become familiar with many aspects of the organization.
- Establish internal feedback mechanisms from members.
- Conduct annual surveys of members on individual board member and collective board performance.

A hospital board routinely allows board members to provide anonymous input (so no one need feel embarrassed about lack of knowledge) regarding topics for board education. Periodically, management constructs a list of relevant health-care issues (e.g., pay for performance, metrics for quality and safety) and has board members rate their knowledge on the topic using a 1 to 5 scale where 1 = I know very little to 5 = I know a great deal. For items receiving low overall scores, the hospital sets up "Board Member Education Hours."

Another hospital board recognizes that dozens of acronyms are used at board meetings and the number in the industry continues to grow. For every board meeting, as board members enter, they receive a blank index card on which they note every time an acronym is used of which they are unaware. The board book for each meeting then includes an updated, annotated list, which continues to evolve.

Again, no one has to be embarrassed by not knowing and meeting time is not interrupted to explain each acronym.

6 Characteristics of EFFECTIVE BOARDS



INTERPERSONAL

Effective boards nurture the development of their members as a working group, attend to the board's collective welfare, and foster a sense of cohesiveness. They create a sense of inclusiveness among all members, with equal access to information and equal opportunity to participate and influence decisions. They develop goals for the group, and they recognize group achievements. Ways to do this include the following:

- Create inclusiveness.
- Have events that enable board members to become better acquainted with one another.
- Build some slack time into the schedule for informal interaction.
- Share information widely and communicate regularly.
- Communicate group norms and standards by pairing newcomers with veteran board members.
- Ensure the board has strong leadership by systematically grooming its future leaders and encouraging individual skills development.

Many boards regularly include social gatherings in the schedule for board meetings. For example, a college board schedules one of its three regular board meetings near commencement time so that board members are there for that event and can interact not only with each other but also with students, parents, and faculty.

The board of a community service organization begins each board meeting with a quick session where board members share what's new in their lives — some meaningful event. A school board opens with a different question every other meeting such as, "What's the best movie you've seen recently?" or "Best play? Best book? Best symphony? Sporting event?" People get to know each other in a different way.



STRATEGIC

Effective boards help their organizations envision a direction and shape a strategy for the future. They cultivate and concentrate on processes that sharpen organizational priorities. They organize themselves and conduct their business in light of the organization's strategic priorities. They anticipate potential problems and act before issues become crises. Try the following ways to develop a strategic board:

- Establish board priorities and a work plan based on organizational strategies and priorities.
- Provide key questions for discussion in advance of meetings.
- Develop a board information system that is strategic, normative, selective, and graphic.

Many nonprofits have generated dashboards — one-page graphical displays of organizational key performance indicators that are color-coded so board members can see what is trending up over time in green, what is flat in yellow, and what is trending downward in red. Questions are posed around the red items: What are the suppositions about why the indicator is red? Are the reasons within or beyond our control? How else might we think about this? What might we be missing? What might be done?





ANALYTICAL



Effective boards recognize the complexities and subtleties of issues and accept ambiguity and uncertainty as healthy preconditions for critical discussions. They approach matters from a broad organizational outlook, and they critically dissect and examine all aspects of multifaceted issues. They raise doubts, explore trade-offs, and encourage differences of opinion. To cultivate this, try the following:

- Analyze issues and events, taking into account multiple potential outcomes and points of view.
- Seek concrete and even contradictory information on ambiguous matters.
- Ask a few members to play devil's advocates, exploring the downside of recommendations.
- Develop contingency and emergency plans.
- Ask members to role-play the perspectives of key stakeholders.
- Brainstorm alternative views of issues.
- Consult outsiders and seek different viewpoints.

One board distributes cards to each board member for each meeting; all but two of the cards are blank, the two say, "Devil's Advocate." This method ensures that opposing views are raised and shifts that role to different people so that it's not always the usual person who always plays that part and to ensure that at least someone plays that crucial role. Board members enjoy this process, saying that they listen and participate quite differently when they're the DA, and everyone seems to be more engaged.

The board of a university recently rethought its contingency planning process to always discuss three plans — Plan A is Best Case, Plan B is Most Likely Case, and Plan C is Worst Case. Another university that has two locations — one on each coast — does a board member swap for each meeting; one East Coast board member attends a board meeting on the West Coast and vice versa. This way, board members learn about what's happening at the other location and more important, learn and transport different ideas about governance.

6 Characteristics of EFFECTIVE BOARDS



POLITICAL

Effective boards accept as a primary responsibility the need to develop and maintain healthy relationships among major constituencies. They respect the integrity of the governance process and the legitimate roles and responsibilities of other stakeholders. They consult often and communicate directly with key stakeholders and attempt to minimize conflict and win-lose situations. To do this, try the following:

- Broaden channels of communication.
- Distribute profiles of board members and annual board reports.
- Invite staff and consumers to serve on board committees and task forces.
- Invite outside leaders to address the board.
- Visit with staff.
- Work closely with the chief executive to develop and maintain processes that enable board members to communicate directly with stakeholders.
- Monitor the health of relationships and morale in the organization.
- Keep options open and avoid win-lose polarizations.
- Be sensitive to the legitimate roles and responsibilities of all stakeholders.

A college board sets aside time at each of its three meetings per year to interact with a different constituency — students in January, faculty in May, and staff or community members in October. During board meetings, a university board links each board member to two or three students to dine together over lunch in the cafeteria and links pairs of board members with pairs of faculty members for dinner.



POINTS TO REMEMBER

The best boards:

- Keep their history and context familiar.
- Spend time educating board members in key areas.
- Pay attention to the board as a team or cohesive group and incorporate social time for board members to get to know and trust each other.
- Pay attention to succession planning and nurture future board leadership.
- Discuss the views of key stakeholders and create opportunities for board members and stakeholders to interact.
- Ensure that most board meetings most of the time focus on strategic matters.

BOARD MEMBER ORIENTATION CHECKLIST

This checklist is a general outline to guide the orientation of new board members. Your organization should modify it as you see fit to ensure that all new board members are provided with the information necessary to fulfill their responsibilities.

PROGRAM



Tour facilities



Presentation by chief executive, key staff, video, or other electronic media.

Materials to share with board members:

- Organization's web site address
- Annual calendar
- Publications and programs list

HISTORY



Ensure that new board members understand the history of the organization.
When was it founded? Why? How has it grown and developed over time?

Materials to share with board members:

- Brief written history or fact sheet on the organization
- Brochures
- Newsletters
- Articles of incorporation
- Note whether directors and officers insurance has been used in the past

GENERAL EXPECTATIONS OF BOARD MEMBERS



Know the organization's mission, purpose, goals, policies, programs, services, strengths, and needs.

STRATEGIC DIRECTION



Review strategic plan

Materials to share with board members:

- Most recent strategic plan
- Current case statement
- Recent press clippings

GENERAL EXPECTATIONS OF BOARD MEMBERS



Follow trends in the organization's field of interest and keep informed.

FINANCES

- ✓ Presentation by chief executive, chief financial officer or treasurer.
- ✓ Review recent financials and teach board members how to read and understand organizational financial statements.
- ✓ Provide an overview of the budget practices board members will need to know, including what to know to approve organizational budgets, what the Form 990 is, and how to read a financial statement.

Materials to share with board members:

- Annual reports
- Last three Form 990s (this information should also be shared during recruitment, even if documents are public).

GENERAL EXPECTATIONS OF BOARD MEMBERS

- i Faithfully read and understand the organization's financial statements and otherwise help the board fulfill its fiduciary responsibility.

ORGANIZATIONAL STRUCTURE

- ✓ Review bylaws
- ✓ Review organizational chart
- ✓ Introduce key staff members
- ✓ Make sure board members not only understand how the organization is structured, but also how the board interacts with specific departments and staff members.

Materials to share with board members:

- Committee job descriptions
- List of staff positions
- Bylaws

GENERAL EXPECTATIONS OF BOARD MEMBERS

- i Avoid prejudiced judgments on the basis of information received from individuals; urge staff members with grievances to follow established policies and procedures through their supervisors. All significant matters coming to you should be called to the attention of the chief executive and/or the board's elected leader as appropriate.

BOARD ROLES & INDIVIDUAL BOARD MEMBER RESPONSIBILITIES

- ✓ Discussion with board chair or whole board about the role of the full board versus the responsibilities of individual board members

For a brief overview, [download our infographic on board member responsibilities](#).

- ✓ Include fundraising responsibilities of individual board members, role that advocacy plays in mission achievement, and how board members can stand for their missions

Materials to share with board members:

- Board member letter of agreement
- Conflict of Interest policy
- Board roster
- Board member position description
- Document describing role of full board versus individual board member responsibilities
- Recent board meeting minutes

GENERAL EXPECTATIONS OF BOARD MEMBERS

- i Prepare for and conscientiously participate in board and committee meetings, including appropriate organizational activities when possible.

Understand and embrace fiduciary responsibilities.

Act as an ambassador for the organization when in public, speak only with one voice outside of board room.

Volunteer outside of board role when appropriate.

Suggest to the appropriate committee possible nominees for board membership who would make significant contributions to the board and organization.

BOARD OPERATIONS

- ✓ Review board manual

- ✓ Meet with board chair

- ✓ Accept committee or task force assignment

- ✓ Attend board meetings

Materials to share with board members:

- Schedule of board meetings
- Schedules of committee meetings
- Full board roster and committee rosters

GENERAL EXPECTATIONS OF BOARD MEMBERS

- i Serve in leadership positions and undertake special assignments willingly and enthusiastically.

Attend all board meetings and come prepared to participate.

BOARD RECRUITMENT MATRIX

This matrix can be adapted to assist your organization's recruitment efforts by assessing your current board composition and identifying opportunities to diversify and/or expand your board.

Every organization is different. Use the table below to help distinguish the skills and strengths you need from board members depending on your organization's stage of development, community served, and other circumstances.

In considering board building, an organization is legally obligated to follow its bylaws, which may include specific criteria on board size, structure, and composition. Keep in mind that your organization's bylaws may need to be updated to incorporate and acknowledge changes in the environment and community that have made board structure changes necessary or desirable.

AREAS OF EXPERTISE/LEADERSHIP QUALITIES	NUMBER OF CURRENT MEMBERS	NUMBER OF PROSPECTIVE MEMBERS
Administration/Management		
Early-stage organizations/start-ups		
Financial oversight		
Fundraising		
Government		
Investment management		
Law		
Leadership skills/motivator		
Marketing, public relations		
Human resources		
Strategic planning		
Physical plant (architect, engineer)		
Real estate		
Understanding of community needs		
Technology		
Other		

RESOURCES		
Money to give		
Access to money		
Access to other resources (foundations, corporate support)		
Availability for active participation (solicitation visits, grant writing)		

Continued ►

Source: [*The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members*](#)

COMMUNITY CONNECTIONS	NUMBER OF CURRENT MEMBERS	NUMBER OF PROSPECTIVE MEMBERS
Religious organizations		
Corporate		
Education		
Media		
Political		
Philanthropy		
Small business		
Social services		
Other		

PERSONAL STYLE		
Consensus builder		
Good communicator		
Strategist		
Team member		
Visionary		

AGE		
Under 18		
19 – 34		
35 – 50		
51 – 65		
Over 65		

GENDER		
Male		
Female		

RACE/ETHNICITY		
African American/Black		
Asian/Pacific Islander		
Caucasian		
Hispanic/Latino		
Native American/Indian		
Other		



Overcoming Hidden Barriers to BOARD DIVERSITY & INCLUSION

Merryn
Rutledge
principal,
ReVisions
LLC

BOARD DIVERSITY & INCLUSION

Most nonprofit boards understand the potential benefits of board diversity and inclusion, yet many struggle to fulfill the promise offered. Why is that? We mean well, after all. Are there hidden barriers to achieving this promise? In some cases, the answer to this question is “yes.” But there is good news too. Once identified, we can work to overcome these barriers and become the diverse and inclusive boards we want and need to be.

We’re faced with a conundrum, however. How can boards see and change what is hidden from their awareness? One way is to learn from others. Allow me to introduce you to Caron, Laura, Anne, and the boards of Food Aid and The Regional Trust — two fictional boards that, in their attempts to diversify and become inclusive, make a series of mistakes that actually lead to exclusion and inequity. Their stories are based on my research and my organizational development consulting practice. By analyzing these cases, I hope to give insight into your own board’s approaches to diversity and inclusion, to help you identify possible blind spots, and to present opportunities for change.

FOOD AID

Food Aid is a state commission. Caron is a Food Aid client who joined the board as its one consumer member. Unfortunately, she frequently misses meetings because she does not own a car, often does not receive meeting notices because she lacks access to a phone and the Internet, and her work schedule at a halfway house often conflicts with the board meetings. Most members of the board are unaware that Caron lacks resources and work flexibility. At the same time, several members have indicated that she makes a valuable contribution to their understanding of hunger, saying that she makes “the vivid face of hunger” real.

THE REGIONAL TRUST

The Regional Trust is an affordable housing nonprofit that has set aside two board seats for subsidized housing residents in accordance with its strategic plan, which states that the organization will create and implement ways to hear and act upon client needs. While attending a board meeting, I notice that Laura and Anne — the two board members who occupy the seats set aside for residents — are silent during a technical discussion of the organization’s finances. Their colleagues on the board — an attorney, two social service civil servants, two bank officials, and two nonprofit executive directors — are engaged in the discussion.

HOW EXCLUSION OCCURRED

Unwittingly, both Food Aid and The Regional Trust have marginalized Caron, Laura, and Anne. As a result, their efforts to enhance diversity and inclusion have backfired. Let’s look at how this happened.

A Narrow View of Diversity

One clue lies in the way these boards recruit members. In an effort to include socio-economic diversity, both Food Aid and The Regional Trust set aside board seats for their clients. To select a member for one characteristic of diversity (receiving food or housing aid) is to take a narrow view of diversity, however, and interferes with a board member’s ability to see Caron, Laura, and Anne as multi-dimensional human beings with many identities. For example, in addition to having personal experience with poverty and hunger, Caron is white, middle-aged, a single mother, and works with a vulnerable population. Her views on hunger and the food assistance system are, no doubt, influenced by all of these identities, but by seeing her as the “face of hunger,” the board sees only one facet of her diversity and casts her as a symbol of all hungry people. Furthermore, in view of the purpose of Food Aid, which is to review and influence public policy for addressing hunger, the board’s reliance upon one person as an informal teacher about hunger severely limits its perspective. How informed will its policy recommendations actually be?

BOARD DIVERSITY & INCLUSION

It's important to note too that the Food Aid and Regional Trust boards do not make a similar assumption about the members recruited for their professional expertise. That is, they do not assume that the bank officer on the Regional Trust's board represents all of the city's banks or that the business owner represents all businesses. These members are viewed as multi-dimensional.

A clearer understanding and wider view of diversity would help both boards. Achieving diversity is not a simple task of offering membership to one missing constituency. Boards need to recognize and track every member's diverse identities — individual and group — to understand how these may influence the board's work. Group identities? Yes. We all are members of groups — people of the same race, the same sex, and the same age cohort, for example. These group affinities can be important to our self-understanding and to how others see and interact with us. For example, when I am the only woman in the boardroom, I am more aware of my group identity as a woman than when I am in a boardroom with roughly equal numbers of men and women. My fellow board members also may be more aware of my group identity, as well as their own gender identity, when I am the single female board member.

In summary, both Food Aid and The Regional Trust boards confuse diversity with inclusion. They do not see that shifts in a board's diversity profile merely prepares it for inclusion, which occurs through heightened awareness of and changes in processes and practices.

Board Practices

Food Aid and The Regional Trust also exclude Caron, Laura, and Anne through their board practices. The Food Aid board, for example, communicates by phone and e-mail and holds meetings at times and locations that favor members with cars and predictable daytime work schedules. Caron lacks access to these resources. The Regional Trust failed to equip Laura and Anne for effective board service by not providing them with training in nonprofit financial management, which is why they were quiet when the board was discussing the organization's finances. This board needs to evaluate its recruitment and orientation practices; it needs to identify what knowledge new board members need to serve effectively. The board's diversity and inclusion plan should include a path to full board engagement.

Power Differences

Another hidden process that interferes with inclusion involves power. Without intending to or realizing it, both Food Aid and The Regional Trust have created a power dynamic in which most board members are powerful and one or a minority is disempowered. For Caron to have become “the vivid face of hunger” and for Laura and Anne to occupy board seats set aside for clients means that they have power as symbols, but such power is equivocal, at best. To be seen as representative of a whole group is to be seen as one-dimensional. Furthermore, Caron, Laura, and Anne's separateness stands out in relief against the interconnections, power, and control enjoyed by the other board members, who are members of the systems that assist people like Caron, Laura, and Anne. The other board members are able to attend meetings and have learned from experience in their careers and from board service how to read and analyze financial information and economic data, for example. The majority of these board members seem oblivious to these sources of power, however. They confuse granting Caron, Laura, and Anne a place at the table with having full board membership.

Peggy McIntosh, associate director of the Wellesley Centers for Women, has called such hidden sources of power and privilege “unearned assets” and, speaking from her own experience as an educated, well-off white woman, has claimed they are hard to bring to awareness. She has described such unrecognized sources of power as “an invisible, weightless knapsack of special provisions, assurances, tools, maps, guides, codebooks, passports, visas, clothes, compass, emergency gear, and blank checks” that certain board members can call on without even realizing the knapsack is there.

BOARD DIVERSITY & INCLUSION

Power differences often are unintentionally held in place by board policies and practices. The Food Aid board does not talk about adjusting meeting times or shifting its norms for communicating with members. The Regional Trust does not include financial training in its board orientation. Most members of these boards unknowingly wear knapsacks of powerful assets that Caron, Laura, and Anne do not wear.

THE NONPROFIT BOARD AS A CENTER OF POWER

Still deeper assumptions may contribute to a board's out-of-awareness involvement in systems of privilege, such as the paternal and hierarchical notions about power embedded in our perceptions of boards of directors and boardrooms.

The very language we use to describe boards reflects and reinforces a view of the board as a power center. We speak of the "boardroom" as a territorial claim, if you will, even in organizations that may have no such special room. Metaphors about "seats," "having a seat at the table," and "inviting" new members "to the table" suggest a carefully chosen few with appointed places. Just slightly more complicated are connotations of "trustees" who hold responsibility for broader groups.

The boardroom has long been viewed as a place of privilege, making it easy for us to behave in presumptive ways, even as we invite greater diversity on our boards and try to conduct board business with greater inclusion. We may not even think to examine the power structures our boards represent and uphold. The result is that mindsets, structures, and practices conspire to encourage approaches to diversity and inclusion that impede, compromise, or even contradict our organizational missions.

THE POWERFUL PULL OF THE STATUS QUO

My own journey to this article includes mistakes I have made, and so I want to tell one more story. While serving on the board of Able Community, Inc., a nonprofit that provides services for elders and people with disabilities, I realized that an outdated boardroom phone system limited my fellow member Paul's effectiveness. Because of physical disabilities and limited access to subsidized transportation services, Paul needed to join board meetings by conference call. But even after we addressed the physical barrier posed by an inadequate conference phone system, we unknowingly impeded Paul's meeting participation by failing to examine and adjust our meeting norms. For example, we only intermittently encouraged "wait time" between member comments and did not make a habit of inviting Paul's questions and comments. It was only in retrospect, after Paul resigned from the board, that I realized that I had failed to assertively promote effective communication norms as a board member that I encourage as a consultant.

SOLUTIONS: LEARNING AND QUESTIONS THAT PREPARE FOR GREATER INCLUSION

Unfortunately, in an effort to embrace diversity, nonprofit boards often make mistakes that actually lead to exclusion and inequality. As Food Aid and The Regional Trust show,

- we invite new board members to join our boards for the wrong reasons
- we see diversity from a narrow perspective and do not expand our views about how diverse members can contribute
- we do not examine our existing diversities
- we do not see how power and privilege are embedded in our board practices

BOARD DIVERSITY & INCLUSION

How can a board grow more conscious and thoughtful about building a body with a diverse array of people and inclusive practices? How can we learn to see and change what is out of its awareness?

We can begin with the premise that effective board service requires us to be knowledgeable about and skilled in promoting diversity and inclusion. Here is what I believe boards need to learn:

- The definitions of and distinctions between diversity and inclusion.
- Individual identity as a complex interaction of characteristics, some permanent (e.g., skin color) and some temporary (e.g., some disabilities).
- Skills associated with tracking — noticing, acknowledging, and responding to — all kinds of differences.
- The ramifications of group membership and the board's group profile. This information lays the foundation for understanding the dynamics of power that result from group membership and group affinities.
- Invisible privilege and how to see it.
- How systems of privilege are embedded in the history and language of nonprofits.

Of course such learning is only one leg of the journey to greater diversity and inclusion. The new awareness that comes through learning should encourage boards to explore their assumptions, policies, and practices more deeply, and to ask questions like the following:

- What assumptions have we been making about diversity?
- What assumptions underlie our current recruitment practices, orientation practices, and meeting norms?
- What assumptions have we been making about individual and collective responsibility for participation in board meetings?
- Now that we have surfaced these assumptions, what will we do?
- What are our individual members' power and privilege credentials?
- What power derives from group membership?
- What structures embed inequity in our board? What will we do to change them?
- What practices embed inequity, and what will we do to change them?
- What paths to full membership will our board create and support?

What is our plan for greater diversity and inclusion? Exploring the answers to these questions will help your board find diversity and inclusion strategies that suit your organization and further your mission while fulfilling the promise of diversity and inclusion.

DIVERSITY

That Builds A CULTURE OF INQUIRY

The following composite personality types illuminate ways that individual board members can contribute to a culture of inquiry. Most people have a combination of traits that may emerge according to the situation. But a board that is completely missing any of these traits — or is too heavily weighted with one or two — will have a harder time governing in a culture of inquiry mode.

THE COACH



A cheerleader who celebrates what's working well, motivates the board to do even better, and reminds the group of the common vision, core values, and the interests of the organization.

THE FACILITATOR



Highly attuned to the needs and emotions of others by encouraging full participation, ensuring that different views are heard, and supporting everyone to do their best thinking. Helps keep the board on track in serving the interests of the organization and the board. (Ideally, facilitator traits are present in the board chair, committee chairs, and individuals designated to lead board discussions.)

THE CALLER



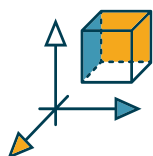
Courageous, sensitive, and skillful in calling individuals on questionable or inappropriate actions or disrespectful behaviors, the board's desired norms of behavior, or the welfare of the organization.

THE OBSERVER



Good at pointing out to the group insights and observations about board dynamics or other issues that illuminate board performance and get disagreements as well as accomplishments out in the open.

THE REFRAMER



Skilled in recasting a complex or divisive issue in a new light, ferreting out and framing the real challenge at hand, and opening up new possibilities to shift attention to fertile new ground for realistic options.

THE ANALYST



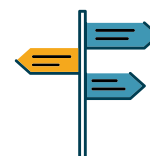
Adept at generating conceptual possibilities, sorting through large amounts of information, considering the consequences of proposed actions, and/or analyzing options strategically, objectively, and dispassionately.

THE HEALTHY SKEPTIC



Enjoys questioning the pros and cons, testing new ideas, playing the devil's advocate, and airing "dissensus" for a good argument that will help surface intelligent doubt and illuminate the issues and the stakes.

THE SYNTHESIZER



Quickly distills patterns, core issues, common themes, and long-range perspectives on complex, contentious, or controversial issues that summarize the discussion to help the board advance to the next step and avoid rehashing old ground.

When these qualities are not present in the chair (and when a board agenda item cries out for open discussion and dialogue), consider asking another more skilled board member to facilitate the board discussion. A skilled facilitator can draw out everyone's input in a safe and respectful manner, especially if the chair lacks the group-process skills or objectivity to create this climate. Additionally, one or more board members can volunteer to play any roles that may be missing from your current board composition.

ADVOCACY, LOBBYING, AND POLITICAL ACTIVITY

Advocacy, lobbying, and political activity by nonprofits often are misunderstood. There is a confusion about what is forbidden by the IRS and what activities might even be recommended for the organization. This outline defines the terms and the legal limits for nonprofit organizations.

WHAT IS ADVOCACY?

One of the key roles for a board member is to act as an advocate for his or her organization. Advocacy means that the board member represents the organization in the community; articulates the mission of the organization; and supports and defends the organization's message.

WHAT IS LOBBYING?

The IRS defines lobbying as "carrying on propaganda, or otherwise attempting, to influence legislation." This means activities that try to influence legislators to pass laws that are favorable to one's cause. There are two categories of lobbying:

- Direct lobbying occurs when the organization contacts legislators or government officials directly.
- Grassroots lobbying tries to influence legislation indirectly by attempting to mold the general public's opinion on an issue.

WHAT IS POLITICAL ACTIVITY?

Political activity is intervention by any means in any political campaign in favor or against a candidate. This does not include nonpartisan voter education or get-out-the-vote drives.

WHAT IS ALLOWED FOR 501(C)(3) ORGANIZATIONS?

Like all nonprofits, public charities are encouraged to be active advocates of their mission. Lobbying is also recommended but within rather strict limits. The IRS allows 501(c)(3)s to engage in lobbying as long as it is not a "substantial part" of their activities. As this definition is quite ambiguous, charities (except churches) have an option to elect an expenditure test under Section 501(h). See details below. Federal grant funds, however, may not be spent on lobbying. Political activity is strictly prohibited for any 501(c)(3). Private foundations may not engage in any lobbying or political activity at all.

ELECTING UNDER 501(H)

When choosing the 501(h) option, an engaged charity is in a better position of surveying and controlling its lobbying activities. It can spend on lobbying up to 20% of its first \$500,000 of exempt expenditures. The dollar limit on total lobbying expenditure is \$1,000,000. However, only 25% of the permitted amount can be devoted to grassroots lobbying. Under the substantial part test, the organization must include volunteer participation as a percentage of activity; under the expenditure test, only money used or staff time spent count. Expenditure is calculated over a four year period, not annually.

ADVOCACY, LOBBYING, AND POLITICAL ACTIVITY

WHAT IS ALLOWED FOR OTHER NONPROFITS?

501(c)(4) social welfare organizations and 501(c)(6) trade associations may engage in lobbying activities without limits; in fact, that can sometimes be one of their main functions. Equally these organizations are allowed to participate in political campaigns but may not exclusively operate for the benefit of one political party or candidate.

WHAT ARE THE CONSEQUENCES FOR BREAKING THE RULES?

A violation of the IRS regulations may result in the nonprofit losing its tax-exempt status and/or an obligation to pay excise taxes on the money improperly spent. Naturally an individual, even when associated with a nonprofit, can participate in any legal activity as a private citizen.

ARE THERE OTHER OPTIONS?

A public charity can form a separate affiliate, a 501(c)(4) organization, to participate in lobbying activities on its behalf. 501(c)(4)s can create special funds, Political Action Committees (PACs), under section 527 of the tax code to carry out electoral activity. A public charity that has an affiliate 501(c)(4), that in turn has formed a PAC, needs to be particularly careful in order to avoid accusations that it is engaged indirectly in activities that are beyond its direct scope.



THE BOARD'S ROLE IN ADVOCACY: AN EXPECTATION FOR ENGAGED LEADERSHIP

Advocacy is a powerful way to leverage the important work that your organization does. Board members — as influential community leaders — can help increase the likelihood of your nonprofit's success by engaging in advocacy. Being an advocate is directly connected to each board member's fundamental responsibility to champion the organization's work — to stand for your mission.

An Opportunity. An Expectation. A Responsibility.

By joining a board, an individual is making a public commitment to support and strengthen an organization by providing her or his leadership, expertise, and influence to advance the organization's mission and impact. Many boards spend a lot of time "going inside," focusing on their organization's internal matters, such as accountability, finances, and programs. And while this kind of oversight is important, board members must also advance their mission by "going outside" the organization — serving as connectors, ambassadors, and advocates.

According to BoardSource's *Ten Basic Responsibilities of Nonprofit Board Members*, the definitive resource on the core roles and responsibilities of nonprofit board members:

- **The board's responsibility to advocate is about fulfilling your organization's mission.**

"A commitment to the organization's mission should drive the board's priorities...boards and their members should be conscientious ambassadors and advocate for their organizations."

- **Each individual board member should be an ambassador for the mission.**

"While advocacy as an organizational strategy pertains to the full board, it is individual board members whose voices...matter the most."

- **Board members have a unique and important voice that decision-makers need to hear.**

"The voice of the unpaid, volunteer board member, acting or speaking out of altruism and passion for a worthy cause, is potentially much more influential than the highest paid lobbyist. Never underestimate the impact that a volunteer board member [can have]."

"We know that boards are often composed of highly influential, connected, and committed individuals. Who better to make the case for why decision-makers should support an initiative that would make water safer to drink, or would enable students to participate in an after-school meal program, or would strengthen the local economy by providing job training programs to the un- or under-employed?"

Anne Wallestad
President & CEO, BoardSource

How Can Nonprofits Engage in Advocacy?

Many organizations avoid advocacy because they think that it is somehow wrong. But the truth is, as a nonprofit organization, you have a right and a responsibility to advocate for or against decisions that could help or hurt your organization's mission.

Advocacy is a broad term that covers a range of activities, including the following:*

- **Legislative Lobbying:** Working for or against a specific piece of legislation. Most nonprofits are allowed to engage in a limited amount of legislative lobbying, which can be a very important way to advance — or protect — your organization's mission and impact.
- **Election-Related Activities:** Nonprofit organizations may engage in nonpartisan voter registration, education and turnout activities. However, supporting or opposing a specific candidate (or set of candidates or a political party) is never allowed for 501(c)(3) organizations, and not what we are talking about when we talk about advocacy.
- **Everything Else:** There are many other forms of advocacy — public education, research, and seeking executive or administrative actions, to name a few. These are perfectly appropriate activities for nonprofit organizations.

* For more on nonprofits' legal right to engage in advocacy activities, visit www.standforyourmission.org.



What Does Board Advocacy Look Like?

As a board member, what does it really mean to be an advocate for your mission? Broadly defined, you are advocating when you engage people in supporting your nonprofit's mission. Those people could be anyone in your community — government officials, business leaders, the news media, and others in the charitable sector.

Advocacy can be

- **asking the zoning board** for permission to have a farmer's market in an underserved neighborhood
- **requesting a parking variance** to allow for a meal truck to serve homeless people in a park
- **educating an elected official** about the value of a job training program that uses public funding
- **partnering with government agencies** to use a public building for a youth program
- **convening community leaders** at times of natural disaster or human crisis to develop solutions for the community and promote healing

If you have a passion and a voice, you have what it takes to be an advocate. And it starts by asking yourself:

Who can I talk to today to advance our mission?

Stand for Your Mission: A Campaign for Nonprofit Board Advocacy

The Stand for Your Mission campaign envisions a reality where nonprofit and philanthropic missions are fully realized because board members are standing for the mission of their organizations and helping set priorities in partnership with government rather than waiting for the outcome.

There are more than 1.5 million nonprofit organizations in the United States. And we have an estimated 20 million individuals leading our organizations who are among the most influential, dedicated, and connected leaders our society has — our board members.

It is time for us to find our voice. It is time for us to stand up for our missions. Join us.

STANDFORYOURMISSION.ORG

Stand for Your Mission is a campaign for board advocacy initiated by:



STAND FOR YOUR MISSION

**THE POWER OF BOARD ADVOCACY:
A DISCUSSION GUIDE FOR BOARDS**

WWW.STANDFORYOURMISSION.ORG

WE DO THIS WORK BECAUSE WE BELIEVE IN SOMETHING.

Whether it's ending homelessness or increasing access to opera, providing at-risk youth with the opportunity to receive a strong education, or protecting global human rights. Each of us is driven by a purpose. We do what we do because we believe that some things are important enough for us to take a stand.

Each of us has made a personal commitment to serve. We do it because it calls upon the best part of ourselves. The part that believes we must try. That believes that when we do try, we can make a difference.

**DECISIONS ARE HAPPENING
AROUND US THAT AFFECT
OUR ABILITY TO ACHIEVE
OUR MISSIONS.**

We exist in a world of tough challenges. A world of budget and resource limitations. A world of differing opinions and conflicting priorities.

It is a fact of life that decisions get made every day that have a profound impact on our missions. Sometimes those decisions are based on ignorance, indifference, or bias. All too often, we are not at the

table. So we are forced to pick up the pieces after flawed decisions are made. Our work suffers. Our progress gets delayed. Our missions get compromised.

Our missions deserve better.

When we are at the table, we can ensure that our priorities are heard, that our communities are represented, that good ideas are funded, and that failing policies are questioned. We can help set the stage for real and lasting success for the people and issues we serve.

The fact is, our respective missions will never be fulfilled if we are relegated to accepting the decisions that are made without us. Our missions demand that we have an impact on those decisions before they are made. And to fix the ones that get in the way of our success.

THERE IS ANOTHER WAY.

There are more than 1.5 million nonprofit organizations in the United States with an estimated 20 million board members at the helm. The sheer number of people who devote their lives, their money, and their time to an important mission is truly inspiring.

The most effective charitable organizations have recognized that successful advocacy does not require stepping into the quagmire of partisan politics. It simply means using our voices as committed and informed champions for our missions. Speaking the truth in a calm but unwavering voice. Reminding decision-makers of our shared values and beliefs. Sharing tested solutions to community problems. Helping community leaders understand the impact of their decisions.

But more than anything else, it requires standing for what we know to be true. It requires using our voices.

YOU ARE THE VOICE YOUR MISSION NEEDS.

Each of us is deeply committed to our missions. Each of us has what it takes to be an advocate for our missions. As stewards of our organizations, we must find our voice.

The most useful — and under-utilized — asset our organizations have to advance our missions are the business

leaders, community volunteers, philanthropists, and opinion leaders who are so passionate about what our missions seek to achieve that they have already put their time, resources, and reputations on the line.

Our board members. Us.

Board members are the citizen leaders from whom decision-makers need to hear. Board members serve as powerful champions for our missions. We are the ambassadors who can bridge differences in opinion, turn ideas into solutions, and make good things happen.

Strong board leadership is not just about checks and balances; it is about creating the circumstances that will allow our missions to be achieved. That ensures progress can be made. That enables each of us to translate our shared beliefs into action.

Our missions will be fully realized when our community leaders hear our voices, understand our arguments, and see our causes as worthy of their best efforts. When we stand for what we believe in and insist on the best for our missions and those we serve.

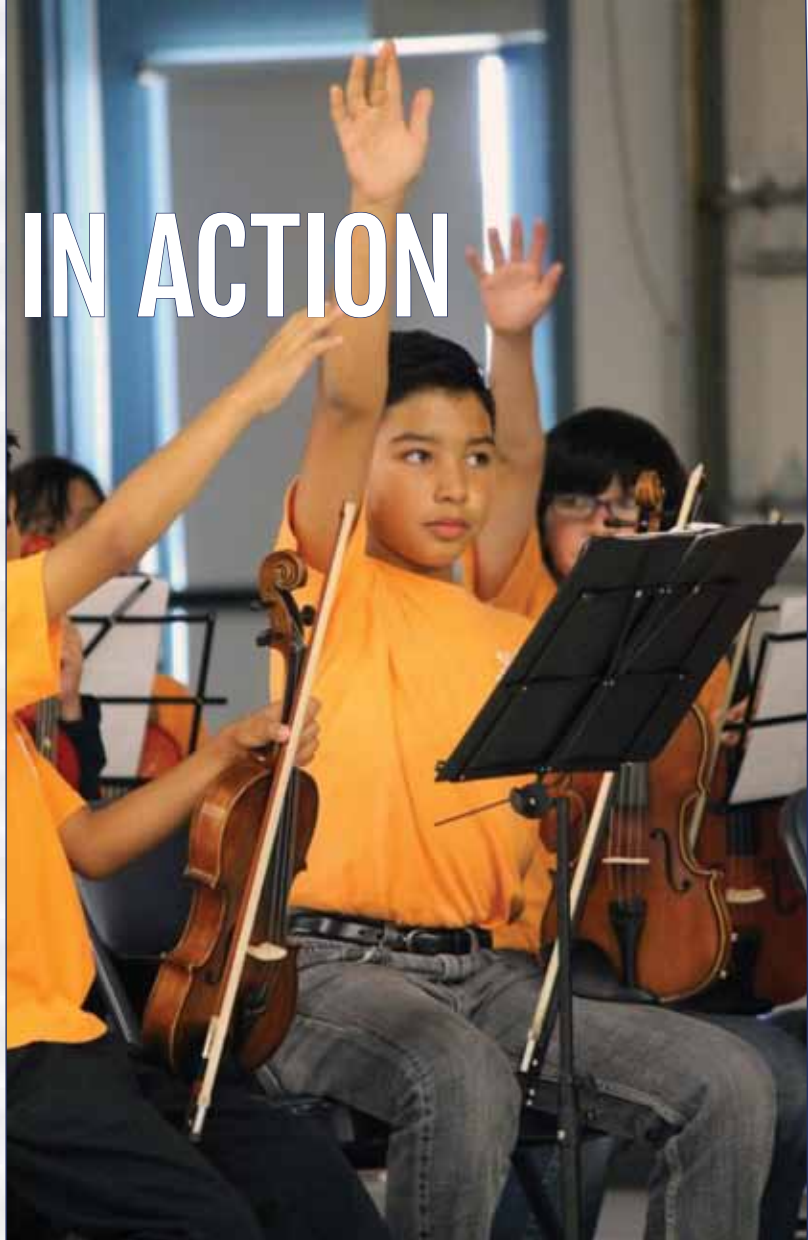
STAND FOR YOUR MISSION. YOUR MISSION. YOUR VOICE.

BOARD ADVOCACY IN ACTION

THE SAN DIEGO YOUTH SYMPHONY: A BOARD-DRIVEN STRATEGY TO GET MUSIC EDUCATION BACK INTO SCHOOLS

THE VISION The San Diego Youth Symphony and Conservatory's board advocacy work began with a reexamination of the organization's mission statement in late 2006 as it sought to grapple with board member disagreement. Some members believed SDYS should focus on pursuing musical excellence, while others wanted to increase access to music education. The writing of a new mission statement initiated a process of reflection and dialogue that culminated in an understanding that the two objectives were not mutually exclusive but highly complementary.

Two years later, SDYS began the League of American Orchestra's "Institutional Vision Program." This three-year training and practical application of the Jim Collins "Good to Great" framework solidified the full board's commitment to a shared vision and belief in the importance of investing equally in excellence and access. The establishment of the vision to "Make Music Education Accessible and Affordable for All" was the culmination of the process to bring the board into full unity.



THE OPPORTUNITY The board realized a strong connection exists between SDYS and the state of music education in schools when it examined the demographics of the students enrolled in the organization's traditional youth symphony program. The majority of those students came from affluent communities where children have access to music education in elementary school. Children who did not have access to music education in elementary school were not participating in SDYS's programs. Understanding this fact led to the board's commitment to use its resources to influence the state of music education in San Diego County. Most of the county's public schools in low-income areas had stopped investing in music education during the school day.

The SDYS board now speaks of its success in terms of the systemic change it is achieving with school districts in addition to the individual change it is achieving with the student musicians in its programs.

Dalouge Smith, president and CEO, San Diego Youth Symphony

THE STRATEGY Once the board had settled on its vision, a strategy for achieving the vision became necessary. The board understood immediately that it was unrealistic for SDYS to build the capacity and infrastructure to provide music education to the hundreds of thousands of students in San Diego County not receiving it. Creating such an infrastructure could only be achieved if it duplicated the existing public school system capacity to deliver educational experiences to every child. Instead, the board decided the quickest path to fulfilling its vision was to convince the county's public school systems to provide in-school music and partner with them to make it happen.

The board started from the belief that school districts have the resources and capacity to deliver music education but don't make music a priority. SDYS set out to influence school districts to invest in music education by launching the Community Opus Project. The Opus Project piloted a free after-school instrumental music instruction program for third-graders in the Chula Vista Elementary School District so that both school administrators and parents could witness the value learning music delivers to children. In this way, the board saw advocacy as the overall purpose of SDYS's Community Opus Project.

Advocacy is now written into SDYS's strategic framework as one of five principal activities. In the framework, it is defined as "community action" because in addition to exerting advocacy influence itself, the board aims for SDYS to galvanize community stakeholders, other partners, and parents to serve as advocates for in-school music education. The community action work includes a robust

community relations campaign involving numerous performances by Opus students throughout the community to build awareness of the benefits of music education and rally supporters. Opus students have performed before the city council, school board, parent committees, and local service organizations. Opus parents, who were encouraged to engage in the Opus lessons and attend school board meetings, have become powerful advocates for in-school music. The SDYS board now speaks of its success in terms of the systemic change it is achieving with school districts in addition to the individual change it is achieving with the student musicians in its programs.

THE RESULT Within the first year of SDYS's Community Opus Project providing music instruction at no cost to third-graders in two schools within the Chula Vista School District, the positive effects of learning music were so apparent that the district asked SDYS to expand the program to serve more students and provided funding to help make the expansion possible. In the second year, the district asked for an expansion to in-school music, and, in the third year, it committed to returning the music education program that had been eliminated 15 years earlier to all schools. The district has already hired full-time music teachers for eight of its 45 campuses and plans to hire more each year until in-school music is available for all of its 29,000 students. SDYS continues to provide after-school instruction and support the restoration of in-school music for the district. SDYS now also works with several other school districts in the region to support and guide their efforts to return music to their schools.

STARTING A CONVERSATION IN YOUR BOARDROOM.

Every nonprofit has its own unique history, culture, and mission, and, therefore, its own view regarding advocacy. But, no matter where you are on the continuum — doing no advocacy to doing a lot — the path toward greater impact through advocacy begins with an honest conversation in the boardroom — a conversation about your organization’s mission, goals, and, most importantly, its vision for the future.

The following guide is designed to help you start that conversation. While some organizations may be able to move ahead quickly because they have already grappled with the more fundamental questions presented here, others may want to spend more time on those questions before moving on. Regardless of where your organization starts, we encourage you to use this guide as a tool for facilitating ongoing board dialogue on your organization’s legal right to advocate and for helping you cultivate a culture of standing for your mission in all possible ways.

STEP 1: A SHARED VISION FOR THE FUTURE

Your organization was founded to meet a specific need or purpose and, as a part of that, is likely to have a vision of what the world would look like if that mission was achieved. Ask your board to answer the following questions:

- Is the board in agreement about our organization’s vision for the future?
- How would the world be different if our mission was fully achieved?
- Are our current strategies the fastest or most direct path to achieving our vision? If not, what would be?

STEP 2: A DEEPER UNDERSTANDING OF YOUR WORK

All organizations are impacted by the larger environment and ecosystem in which they operate. Understanding what that ecosystem looks like for your organization, and where you are situated within it, is a critical step for your board. Ask your board the following questions:

- What are the societal realities or problems that our work seeks to solve, alleviate, or otherwise address?
- What are the broader issues associated with our core work?
- Are our strategies actively addressing those issues? If not, what would change if they did?

STEP 3: IDENTIFICATION OF THE OPPORTUNITIES AND THREATS

Changes in your community, funding sources, and policy environment affect — either positively or negatively — your organization's ability to achieve its mission. Identifying and understanding the opportunities and threats affecting your organization is a key step in building an advocacy strategy and in ensuring that your board is well-positioned to help implement that strategy. Ask your board the following questions:

- What are some of the external factors that have positively or negatively impacted our work in the past? How well did we — as a board — anticipate them before they happened? Did we try to stop or soften the bad ones, or rally to support the good ones?
- Are there policy changes that would dramatically improve (or threaten) our ability to fulfill our mission and vision? If we could advance our mission more effectively by changing one law, public policy, or public attitude, what would that change be?
- Do we have candid conversations about the reliability of funding that we earn through government contracts or grants?
- Are we — as an organization — actively engaged in conversations with decision-makers about the policies or decisions that affect our work? If not, why not?

STEP 4: BOARD ENGAGEMENT IN MAKING IT HAPPEN

Every board member brings a potent combination of passion and influence to his or her board service that — if leveraged — can powerfully accelerate your organization's advocacy strategy. Understanding your board's networks and spheres of influence can help you map the ways each board member can help. Ask your board the following questions:

- Do we regularly discuss the implications of public policies and funding to our mission?
- Do we have a public policy strategy for our organization, and — if so — is the board well-informed about how best to support it?
- Do we have board leaders who can speak to and connect with a broad cross-section of community needs and constituencies in support of our work?
- Have we provided training or guidance to board members about how to engage effectively in advocacy efforts that enables them to represent our mission and work with confidence?

STEP 5: MAKING ADVOCACY A PART OF YOUR BOARD'S CULTURE

A true cultural change happens when advocacy becomes fully integrated into the way that your board thinks, makes decisions, and measures its own success. Ask your board the following questions:

- Do we have goals for our advocacy work that enable us to assess how well we are doing across all the links and connections that are vital to our success?
- Is a degree of advocacy a part of every board member's job description?
- Is our board recruitment strategy aligned with our public policy strategy, and the connections or influence that will ensure our success?
- Are we — as an organization — actively participating in coalitions and organizations that are helping to advance our advocacy strategy?

ACTIONS FOR NONPROFIT LEADERS



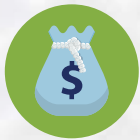
IF YOU'RE A
NONPROFIT CEO...

- 1. Just starting out:** Engage your board in a conversation about what public policy is and how decisions made by people outside your organization influence your mission, making it easier or harder to accomplish.
- 2. Building:** Educate your board members about key policy issues that positively or negatively influence your organization's work (or could), and tap them to help open doors and make the case to external decision-makers and opinion leaders.
- 3. Accelerating:** Identify gaps in your organization's advocacy network and engage the board in recruiting new board members to help bridge them.
- 4. Connecting:** Join groups that monitor policy matters that might support or threaten your nonprofit's mission. Stay up to date on state and federal policy issues affecting nonprofits and your mission on the [National Council of Nonprofits's website](#), and then engage when appropriate.



IF YOU'RE A NONPROFIT
BOARD MEMBER...

- 1. Just starting out:** Talk with your board chair or CEO about how your board can get more engaged in advocating for your organization's mission.
- 2. Building:** Participate in a training session about how to become a stronger advocate for your work.
- 3. Accelerating:** Institutionalize your board's role in advocating for your mission by incorporating it into your board job description and expectations.
- 4. Connecting:** Join groups that monitor policy matters that might support or threaten your nonprofit's mission. Stay up to date on state and federal policy issues affecting nonprofits and your mission on the [National Council of Nonprofits's website](#), and then engage when appropriate.

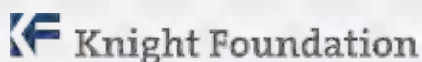


IF YOU'RE A FUNDER...

- 1. Just starting out:** Engage in an internal conversation about what public policy is and how decisions by policymakers and others make it easier or harder for your grantees to accomplish their missions. Many foundations are inadvertently discouraging nonprofits from engaging in vital advocacy efforts by using unnecessarily hyper-restrictive or ominous language in grant agreements. Review your proposal guidelines and grant agreements to make sure you aren't artificially restricting your grantees' constitutional rights to speak up to advance their missions. For guidance, check out [this resource](#) from the Alliance for Justice.
- 2. Building:** Consider providing more general operating support grants that provide the flexibility to rally resources quickly to engage in advocacy campaigns as needed.
- 3. Accelerating:** Engage grantees in conversations about how they are using advocacy as a tool for greater impact. The Alliance for Justice has [suggestions on how to begin that conversation with your grantees.](#)
- 4. Connecting:** Stay up to date on policy issues affecting [foundations](#) and [nonprofits](#) and engage when appropriate. The Forum of Regional Association of Grantmakers created [this list of questions to think through prior to reaching out to a policymaker.](#)

ABOUT THE STAND FOR YOUR MISSION CAMPAIGN

The **STAND FOR YOUR MISSION** campaign calls on all nonprofit decision-makers to stand for the organizations they believe in by actively representing their missions and values, and creating public will for important policy changes. A collaborative effort initiated by the Alliance for Justice, BoardSource, the Campion Foundation, the Forum of Regional Associations of Grantmakers, the Knight Foundation, and the National Council of Nonprofits, the campaign seeks to unleash the full potential of nonprofits to advance their missions by engaging board leaders more directly in the advocacy work of their organizations.





GET ENGAGED

The most important action you can take is to start a conversation in your boardroom about how advocacy can accelerate the impact of your mission, with this resource as your guide. If you are also inspired to engage with our national campaign, we encourage you to join us.

Here are some ways to connect with the **STAND FOR YOUR MISSION** campaign:



SHARE your story about how board engagement in advocacy strengthened your organization's impact by submitting a "success story."



CONTRIBUTE a "photo pledge" to share what you stand for on www.standforyourmission.org.



Join the conversation about why board engagement in advocacy matters by joining the **STAND FOR YOUR MISSION** **LinkedIn** group.

Access more resources and tools to support your board's engagement in advocacy at:

WWW.STANDFORYOURMISSION.ORG



Your Mission. Your Voice.

WWW.STANDFORYOURMISSION.ORG



*Les Wallace, PhD., President
Signature Resources, Inc., Aurora, CO*

THE BEST BOARD MEETING I EVER ATTENDED

The executive in charge of board development for a large national philanthropic organization with more than 100 regional boards recently asked me, “What’s the best board meeting you ever attended?” Got me to thinking...No, it wasn’t chaired by me. Yes, it was one of my clients. Here’s what it looked like:

1. CONSENT AGENDA

The monthly meeting began online and 10 days prior to the physical meeting with approval of the consent agenda, which included the CEO report and several updates from key staff members. Proper use of the consent agenda moves dialogue to the more vital issues rather than to the information inherent in every board packet that simply requires a read-through and consent.

2. MEETING AGENDA

The most important business and strategic issues were first on the formal agenda, and the rest was in descending order — no more “old business” “new business” stuff. Yes, it appears a bit radical and divergent from “Robert’s Rules,” but those “rules” are ancient history to today’s high-performance board where the agenda moves from financial to strategic to operations in that order.

3. DASHBOARD FINANCIALS

The financial report — the first business item on the agenda — was presented as a one-page, color-coded (green, yellow, red) dashboard of key financial indicators that the board had developed a few years earlier. This “at-a-glance” approach allows the board to scan the identified key indicators for monthly and year-to-date performance to budget as well as a past year comparison. The dashboard confirmed no exceptions to the monthly financials, was motioned for approval by the finance committee chair, and approved and documented in the minutes. The days of several pages of financials for board review are gone. The finance committee does the deep dive into the details as necessary and reports exceptions or recommendations to the entire board. No more distracting board members with an explanation of why postage jumped last month.

4. BOARD SUCCESSION

A “Governance Leadership Succession” agenda item followed with a discussion of the cadre of potential future board members the board had identified and engaged. Conversation focused on the three top candidates for two positions that would open in nine months and how they fit the desired profile. While executive leadership succession has reached the radar screen for most boards, governance leadership succession still lags behind. I conducted a special educational session at this organization’s last board retreat on how to go about this due diligence; they now are tracking progress quarterly on early identification and development of next generation board members.

5. REDUCED JIBBER-JABBER

Board members had read the board packet, and their contributions were cogent and to the issue. No repeating what other board members had said. No drifting off into “administrivia” — they kept a hard focus on the matters at hand and a soft focus on dealing with one another. Through self-assessment and governance coaching, they had learned to quiet the unnecessary trivial chatter and redundant comments that seeps into many less-disciplined meetings. They saved space for meaningful dialogue later during the “strategic update” segment of the meeting, which accounts for 50 to 75 percent of meeting time in high-performance governance.

6. EXECUTIVE SUMMARIES

Staff and committee presentations/recommendations were in “executive summary” one-page formats. Background information had been provided on the board section of the Web site for those who wished more detailed

THE BEST BOARD MEETING I EVER ATTENDED

information. This jump-started the board discussion on action vs. the history of how we got there. The executive summaries included a highlight of key historical points and a few typical frequently asked questions relevant to governance decision making.

An executive summary approach to reports can be expected to cut substantial time off board deliberation by enabling you get to the point and not waste time on irrelevant curiosity about benign details.

7. STRATEGIC DIALOGUE

Thirty minutes into the agenda, the board had completed its “business oversight” (fiduciary accountability) and moved on to a significant strategic issue. This allowed 45 minutes of dialogue about the continued relevance of the strategy, updates on progress, new data points / information relative to the strategy, confirmation of continued importance, and recommitment to tactics, timing, and resources. This conversation was “generative” in that it focused on the creation of ideas and the development of new perspectives on strategy.

This is where the board had time for expansive dialogue (not simply discussion), allowing for thorough understanding and creative input. The 40 minutes saved by the consent agenda (approximately 10 minutes for most boards), the financial dashboard, exception reporting (a savings of approximately 15 minutes for most boards), and those “executive summaries” (causing conversation to jump-start in decision mode and saving another estimated 15 minutes) came in handy! It was reinvested in rigorous strategic dialogue.

8. BOARD DEVELOPMENT

The meeting ended with a short board development segment focused on the discussion of a governance article on the board’s role in enterprise risk management that the members had read in advance. This 15- minute segment of the agenda directly related to board development goals established during the annual strategic planning retreat and was based on the results of the board’s most recent annual self-assessment. This board includes time for board development in every agenda — sometimes separate, as with this meeting or frequently embedded in the “strategic review” segment of the agenda.

9. IMMEDIATE ASSESSMENT

Finally, using an old concept from good meetings practices, each board member completed a quick evaluation survey of the meeting, answering three open-ended questions: 1. Are you leaving the meeting confident in the overall performance of our organization? 2. Did you feel you had ample opportunity for input? 3. Would you change anything for future meetings?

Resources:

[Meeting, and Exceeding Expectations](#)
[Signature Resources.com](#)

Welcome to Your KEY FINANCIAL STATEMENTS



A Primer for Nonprofit Board Members

WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

INTRODUCTION

Every nonprofit board member is legally responsible for the financial oversight of the organization he or she serves. You cannot do that without a basic understanding of nonprofit financial statements. This guide is designed to introduce you to the two most important financial documents that you will encounter as a board member — the balance sheet and the income statement — thus helping you meet your fiduciary responsibility.

WHAT ARE FINANCIAL STATEMENTS?

Financial statements are formal written records of your organization's financial activities and position and provide the information you need to identify your organization's financial strengths and weaknesses. Usually, management is responsible for creating the statements, which are typically produced monthly for the month just ended as well as for the year to date. The year-to-date statements provide valuable reference points and allow the board to see how well actual results are following projected assumptions. At year end, the year-to-date figures reflect the accumulation of the previous 12 months of transaction activities applied to the balance sheet and income statement.

WHAT IS THE BALANCE SHEET?

The balance sheet or Statement of Financial Position has traditionally been recognized as the most important of the financial statements due to the comprehensive and illuminating information contained in it. At its simplest, it shows you what your organization owns (assets), what it owes (liabilities), and what remains (net assets) at a specific moment in time.

The balance sheet shows the value of your organization, how much of your debt is current and how much is long-term, and — with the help of ratios — much more (See ratios below).

Some people think of the balance sheet as a scale. Assets and liabilities will not balance until you put net assets on the scale.

Terminology:

ASSETS are everything an organization owns and are usually listed according to how quickly they can be turned into cash (how “liquid” they are):

- Cash
- Accounts receivable — Money owed to your organization
- Promises to pay — Promised or pledged contributions
- Property, Plant, and Equipment — Fixed assets

LIABILITIES are everything your organization owes and are usually listed in the order they need to be repaid:

- Accounts payable — Money that your organization knows that it owes vendors and suppliers (unpaid invoices).
- Accrued liabilities — Money that your organization estimates that it owes vendors and suppliers (invoices yet to be received).
- Current portion of long-term liabilities — The portion of long-term debt that your organization must pay in the next 12 months.
- Long-term liabilities — Outstanding debt that has a due date beyond 365 days, such as a mortgage or tax-exempt bond.

WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

NET ASSETS are the difference between what your organization owns and what it owes. Net assets can be *unrestricted* as to their use or time of use. Or they may be *restricted* assets, as when a donor puts limits on their use. The restriction can either be *temporary* (if the restriction can be met either with the passage of time or by the purpose being fulfilled) or *permanent* (if the restriction never expires and cannot be removed.) As an example, the principal of many endowments is permanently restricted.



Tip: The *net asset balance* assists you in determining the underlying financial worth of your organization, because it is the value left after the organization's total liabilities are subtracted from its total assets. It is judicious to monitor your organization's net assets over time; a continuously rising trend for this balance sheet line often represents positive operating margins.

WHAT IS THE INCOME STATEMENT?

The balance sheet captures a moment in time. It's like a snapshot. The income statement or Statement of Activities reflects your organization's financial activity — revenues and expenses — over time (monthly, quarterly, and annually). It's like a report card. At most nonprofits, numbers change rapidly as money comes in and bills are paid. This makes it hard to know how much money you've actually earned. The Income Statement answers that question. It tells you if revenue is going up or down and how much profit is left after deducting what it costs to operate your nonprofit. This profit can be used to grow your nonprofit or pay debt. The income statement does not tell you if your organization's financial condition is weak or strong, what you own, what you owe, and what others owe you (see the Balance Sheet).

Because the Income Statement reflects your organization's financial activity over time, it is usually developed monthly, quarterly, and annually. Many nonprofits also create a projected income statement for the next 12 months, based on predictions.

GAAP (Generally Accepted Accounting Practices) requires that the income statement classify revenues and expenditures and be shown as unrestricted, temporarily restricted, or permanently restricted.

Terminology

REVENUE is income from providing goods or services to your organization's clients, customers, members, etc. and from other earning activities, such as sales of inventory or earnings on investments. It frequently includes both earned income and income from contributions.

CONTRIBUTIONS are assets that have been given to your organization in the form of cash, stock, bonds, art, property, etc.

EXPENSES are what an organization spends to conduct its activities. Expenses on the income statement are grouped into three categories:

Which accounting method does your organization use?

The cash method:

- Records revenue when it is received.
- Records expense when it is disbursed.

The accrual method:

- Records revenue when it is earned.
- Records expense when it is incurred.

WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

- Program Services — expenditures, goods, and services used in activities to fulfill the organization's mission, such as salaries and supplies
- Management and General — expenditures on general oversight and management, such as on recording keeping and budgeting
- Fundraising — expenses incurred in the solicitation of contributions and grants

NON-OPERATING INCOME is revenue not related to your nonprofit's programs or mission. The most common item is *realized* investment income — gain or loss from the sale of invested assets, such as common stock or mutual funds, that are owned by the organization.

NET ASSETS are the difference between what your organization owns and what it owes.

CHANGE IN NET ASSETS is the difference between the revenues earned and expenses incurred over a period of time, otherwise known as profit or loss.

RATIOS

The balance sheet and income statement contain a lot of illuminating information, and while the numbers in themselves are significant, so too are ratios based on the numbers. Ratios help you identify your organization's strengths and weaknesses.

Because nonprofits vary in size, structure, income reliability, and other financial aspects, your board, in conversation with management and your auditors, should establish a set of financial ratio standards or benchmarks that are most appropriate for your organization.

Here are five key ratios that you should understand and be able to articulate.

Current Ratio

SOURCE: Balance sheet
The current ratio measures your organization's ability to meet its current financial obligations.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The higher the ratio, the better off your organization is. A healthy ratio for most organizations is in the 2.0 to 4.0 range. That level indicates that the organization is financially solvent, having double to quadruple the financial means to meet its current financial obligations. A 1:1 ratio means there is no working capital.

Quick Ratio

SOURCE: Balance sheet
The quick ratio measures your organization's ability to meet its short-term financial obligations with assets that can quickly be turned to cash.

$$\frac{\text{Cash} + \text{Cash Equivalents} + \text{Accounts Receivable} + \text{Unconditional Promises to Pay}}{\text{Current Liabilities}}$$

Like the current ratio, a range between 2.0 and 4.0 is considered healthy.

Days Cash on Hand

SOURCE: Balance sheet and income statement
This may be the most important of all ratios for board members. It measures the number of days of average cash expenses that the organization maintains.

$$\frac{\text{Cash} + \text{Short-Term Investments}}{(\text{Total Expenses} - \text{Non-Cash Expenditures}) \div 365} = \text{Days Cash on Hand from Short-Term Sources}$$

$$\frac{\text{Cash} + \text{Short-Term Investments} + \text{All Long-Term Investments}}{(\text{Total Expenses} - \text{Non-Cash Expenditures}) \div 365} = \text{Days Cash on Hand from All Sources}$$

Like the current ratio, a higher value is always preferred. The board may want to exclude restricted cash from this equation so as not to overstate the organization's ability to meet its basic operating needs.

WELCOME TO YOUR KEY FINANCIAL STATEMENTS: A PRIMER FOR NONPROFIT BOARD MEMBERS

Debt-to-Equity Ratio

SOURCE: Balance sheet

The debt-to-equity ratio tells you the proportion of debt versus assets being used to support your organization. It tells you how deeply your organization is in debt and what percentage of your assets are tied up in liabilities.

$$\frac{\text{Total Liabilities}}{\text{Total Net Assets}}$$

A lower debt-to-equity ratio implies a more financially stable organization. Nonprofits with higher debt-to-equity ratios may be taking too much financial risk as debt must be repaid and the organization may not be able to make the payments.

Operating Margin Percentage

SOURCE: Income Statement

Operating margin percentage is a useful ratio because it measures the organization's bottom line (before non-operating revenues) compared to its total revenues. The ratio allows you to quickly and rather accurately determine the extent of your organization's profitability on its core operations.

$$\frac{\text{Excess of Support \& Revenues Over Expenses}}{\text{Total Support \& Revenues}}$$

Higher values are preferable.

SAMPLE BALANCE SHEET AND INCOME STATEMENT

A key challenge to understanding financial statements is recognizing the wide diversity of nonprofit organizations and the multiplicity of audiences and clientele they serve. Because of this diversity, nonprofit financial statements differ in format and appearance from one organization to the next. The following examples represent a fictional nonprofit; they are meant to be an amalgamation of several types of nonprofits operating throughout the U.S. While these fictional statements may not be precisely like the statements used by your nonprofit, all the common and essential elements are shown to enable you to relate to your organization.

See Next Page 

SAMPLE BALANCE SHEET

Financial Statements Explained

ABC CHARITIES, INC.			
Statements of Financial Position (Balance Sheet)			
At December 31, 2015 and 2014 (in thousands)			
	December 2015	December 2014	
Assets (WHAT THE ORGANIZATION OWNS)			
Current Assets			
Cash	1,200	2,000	
Investments — Short Term	6,500	5,400	
Total Cash and Cash Equivalents	7,700	7,400	
Gross Accounts Receivable	12,000	12,800	
Less: Allowance for Doubtful Accounts	(2,800)	(2,600)	
Net Patient Receivables	9,200	10,200	
Unconditional Promises To Pay	5,000	5,000	
Inventory	500	400	
Prepaid Expenses	400	300	
Other Current Assets	900	700	
Total Current Assets	22,800	23,300	
Long-Term Investments — Unrestricted	62,300	55,000	
Trusted Investments	10,000	12,200	
Deferred Financing Costs	1,300	1,400	
Other Noncurrent Assets	73,600	68,600	
Property, Plant & Equipment			
Land and Land Improvements	2,000	2,000	
Buildings	20,000	18,000	
Leasehold Improvements	700	700	
Equipment and Fixtures	10,500	9,000	
Construction in Progress	1,500	1,000	
Total PP&E	34,700	30,700	
Less: Accumulated Depreciation	(18,000)	(15,000)	
Net PP&E (book value)	16,700	15,700	
Total Assets	113,100	107,600	
Liabilities (WHAT THE ORGANIZATION OWES)			
Current Liabilities			
Accounts Payable	6,000	4,500	
Current Retirement on L/T Debt	1,500	1,400	
Total Current Liabilities	7,500	5,900	
Long-Term Debt	64,800	66,200	
Other Long-Term Liabilities	2,000	2,100	
Total Long-Term Liabilities	66,800	68,300	
Total Liabilities	74,300	74,200	
Net Assets (DIFFERENCE BETWEEN WHAT IS OWNED AND OWED)			
Unrestricted	32,600	27,900	
Temporarily Restricted	4,200	4,200	
Permanently Restricted	2,000	1,300	
Total Net Assets	38,800	33,400	
Total Liabilities & Net Assets	113,100	107,600	

Anything easily convertible into cash

an allowance for receivables that may not be collected

Contributions that have been promised to the organization without any conditions that have to be met

Assets that were donated or purchased with the hope that they will generate income

The portion of long-term debt that your organization must pay within 12 months

Outstanding debt that has a due date beyond 365 days

No donor restrictions on how and when the asset can be used

Tip: This number assists you in determining the underlying value of the organization. A continuously rising trend represents positive operating margins.

Donor restrictions that can be met over time

Donor restrictions that will never expire

Quick ratio:

Cash + Cash Equivalent (\$7,700)

+ Accounts Receivable (\$9,200)

+ Unconditional Promises to Pay (\$5,000)

÷ Current Liabilities (\$7,500)

$\frac{\$21,900}{\$7,500} = 2.9$

Current ratio:

$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\$22,800}{\$7,500} = 3.0$

Debt-to-Equity Ratio:

$\frac{\text{Total liabilities}}{\text{Total unrestricted net assets}} = \frac{\$74,300}{\$32,600} = 2.3$

SAMPLE INCOME STATEMENT

Statement of Activites Explained

No restrictions on how and/or when the net assets are used

Donor has placed restrictions on the use of the net assets that can be met over time or by purpose fulfilled

Donor has required gift to be held in perpetuity (not used); generates income that must be used according to donor's intent

ABC CHARITIES, INC.

Statement of Activites (Income Statement)
For the Years Ending December 31, 2015 & 2014 (in thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL 2015	TOTAL 2014	PERCENTAGE CHANGE
Public Support & Revenues						
Net Service Revenues	43,600	10,000	--	53,600	50,000	7.2%
Contributions	9,000	--	700	9,700	9,000	7.8%
Grants	3,400	--	--	3,400	3,200	6.3%
Total Support and Revenue	56,000	10,000	700	66,700	62,200	7.2%
Expenses						
Program Services	40,600	7,000	--	47,600	45,800	3.9%
Management and General	10,190	3,000	--	13,190	12,000	9.9%
Fundraising	710	--	--	710	700	1.4%
Total Expenses	51,500	10,000	--	61,500	58,500	5.1%
Excess of Support & Revenue over Expenses	4,500	--	700	5,200	3,700	40.5%
Non-Operating Income (Expenses)						
Gain/(Loss) on investments	1,200	--	--	1,200	1,000	20.0%
Total Non-Operating Income	1,200	--	--	1,200	1,000	20.0%
Excess of Support & Total Revenue over Expenses (Total margin)	5,700	--	700	6,400	4,700	36.2%
Net Assets, Beginning of Year	59,500	4,200	1,300	65,000	62,300	4.3%
Change in net unrealized gains & losses on investments	(1,000)	--	--	(1,000)	(2,000)	-50.0%
Net Assets, End of Year	64,200	4,200	2,000	70,400	65,000	8.3%

Commonly includes expenses directly related to program delivery, such as salaries, supplies, purchased services

Expenditures related to oversight and administrative activities, such as record keeping and finances

Total cost of fundraising efforts

Revenue/expenses not related to mission, such as income from investments

Changes in the fair market value of investments that the organization could sell



Operating Margin Percentage:

Allows you to quickly determine the organization's profitability on its core operations; the higher the value the better.



Excess of Support + Revenue over Expenses

Total Support & Revenue



$\frac{\$5,200}{\$66,700} = 7.8\%$

7 Questions to Ask When REVIEWING THE ANNUAL BUDGET

The annual operating budget outlines the organization's goals and activities for the year and attaches numbers to them. It estimates income from a variety of sources and sets forth the organization's anticipated expenditures. Staff members have the responsibility for determining which items are covered in the budget and for drafting the overall document. The board is responsible for reviewing and approving the budget.

Here are seven questions the board should keep in mind as it reviews and approves the budget:

1. DOES THE BUDGET REFLECT THE ORGANIZATION'S MISSION ACCURATELY?

The budget can send signals that an organization may be veering from its mission. Look for them by asking the above question.

2. DOES IT CALL FOR A SURPLUS?

Although nonprofits are not primarily in business to make a profit, building a surplus constitutes a wise business practice. It provides an opportunity for a nonprofit to reinvest profits in programs and operations and/or invest for those years when the balance sheet tips the other way. Accumulating large reserves is not inherently bad, provided the organization has a sound reason for having them, such as being financially prepared for the loss of a major revenue source or for an unexpected investment opportunity. And remember, while deficit budgets are not ideal, they also are not a sin now and then — as long as the organization has adequate reserves to draw on.

3. WHERE ARE REVENUES PROJECTED TO COME FROM?

A diversified base for creating income allows an organization to stay flexible, stable, and more insulated from environmental and economic fluctuations, but the reliability and competitiveness of your revenue streams dictate the degree of diversification that you need. Many nonprofits earn income through fees for service, product sales, membership programs, endowments, operational reserves, for-profit subsidiaries, fundraising, grants from foundations, federal grants, board member contributions, corporate support, inkind donations, and the United Way.

4. WHAT ARE THE OPERATING RATIOS FOR KEY AREAS?

Determine what percentage of total budgeted expenditures goes to such areas as salaries and benefits, fundraising, and so forth. Some donors may request this information to determine, for example, how much of every dollar raised goes directly to support programs or services. Keep in mind, however, that administrative costs are crucial to supporting an organization and its mission — a program cannot function without its infrastructure, adequate space, staff, and supplies. The board must take time to assess the organization's needs and ensure that the budget is not "starving" the organization — underinvesting in administrative costs is consistently linked with poor organizational performance and sustainability.

5. WHAT POLICIES APPLY TO BUDGET REVISIONS?

How much flexibility does the staff have to adjust the budget as the fiscal year unfolds? Mid-course adjustments are common and considered normal in many organizations. Many nonprofits use forecast modeling that incorporates the budget to determine if deviations are occurring and adjustments are needed. Do your policies allow the senior

7 Questions to Ask When REVIEWING THE ANNUAL BUDGET

management to make and approve these adjustments or do significant revisions require board approval? Requiring board approval on any significant revision to the budget can be an effective internal control, decreasing the opportunity for fraudulent activity or misuse of funds.

6. HOW DO REVENUES AND EXPENDITURES STACK UP AGAINST THOSE OF OTHER NONPROFITS?

To make well-informed financial decisions, board members also need to remain abreast of trends within the community and the nonprofit sector as a whole. Helpful benchmarks may include member or donor retention rates, the cost to acquire a new donor or member, average program or product costs, and the percentage of each dollar raised that goes to program delivery versus administrative costs (keeping in mind, of course, that administrative costs are crucial to supporting an organization and its mission).

7. DOES THE BOARD REGULARLY RECEIVE FINANCIAL STATEMENTS THAT INCLUDE BUDGET INFORMATION?

It is helpful for board members to compare actual to budgeted expenses and revenues, including the percentage of variance. These statements should be reviewed regularly during board meetings so that all board members remain aware of profit-and-loss performance.

Resources:

[The Overhead Myth: Moving Toward an Overhead Solution](#)

[Financial Responsibilities of Nonprofit Boards](#)

[Understanding Nonprofit Financial Statements](#)

[The Nonprofit Policy Sampler](#)

[The Nonprofit Dashboard: Using Metrics to Drive Mission Success](#)

The Board's Role in REVIEWING FORM 990

A Checklist

All tax-exempt organizations must report annually to the IRS on their financial and other activities — including their governance activities. They do this by filing a Form 990, Return of Organization Exempt from Income Tax.

Many organizations provide a CPA or legal counsel with the pertinent information and then rely on him or her to complete the form. Regardless of who completes the form, however, all organizations should ensure that the chief executive and either the board chair or the chair of the audit (or finance/audit committee) committee examines it closely prior to filing. As fiduciaries, all board members also should be familiar with it. In Part VI, Section A of the form, the IRS asks whether the board receives a copy and what its review process is.

To help your board review the completed form, BoardSource provides the following checklist pertaining to governance. If your board members flag any of the items on the checklist, address them before filing the form with the IRS. When reviewing the form, keep the following in mind:

- **Is it accurate?** Form 990 serves as introduction to your organization and is reviewed by the IRS, your constituents, donors, and the media. You do not want to share inaccurate information.
- **Are you meeting legal requirements?** The IRS recognizes your tax-exempt status. Form 990 allows the IRS to verify that your organization meets the expectations and deserves its special status.
- **“No” answers may raise red or yellow flags in the eyes of the IRS.** They may lead to a heightened audit profile. Are there justified reasons for your “no” answers? Have you explained the reasons sufficiently in [Schedule O](#)?
- **Have you done your due diligence in justifying various interdependencies and relationships among your insiders or individuals or entities with which your organization does business?**
- **Are those who are compensated for services truly earning their compensation?** Familiarize yourself with the IRS's [intermediate sanctions](#) and safe harbor clauses and follow them to protect yourself and your organization.

LIST OF BOARD MEMBERS



The IRS requires you to list the names and titles of all board members and officers, whether or not compensation is provided. **Have you done so and is the information correct?**

NUMBER OF VOTING MEMBERS

The IRS wants to know the size of your decision-making body/board. Do not include ex-officio non-voting members in this number. If your chief executive is a voting member, you must add him or her to this number. **Is this number correct?**

INDEPENDENCE OF BOARD MEMBERS

The IRS wants to ensure that your voting board members are independent as it pertains to three conditions: 1) No compensation as an officer or employee of the organization; 2) No (or less than \$10,000) compensation as a contractor to the organization or a related organization; 3) No other financial transactions directly with the organization or a related organization or to a family member with the organization or a related organization. **Are your board members independent?**

 YES	 NO
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

The Board's Role in REVIEWING FORM 990

A Checklist

COMPENSATION OF BOARD MEMBERS, OFFICERS, AND KEY EMPLOYEES

Compensation is of primary concern to the IRS. Above all, it wants to ensure that no tax-exempt organization is involved in private inurement, undue or excessive remuneration for services not provided, or that decisions related to financial transactions are made by insiders who have a conflict of interest in the outcome.

Do your board members serve as volunteers without compensation? If they are compensated, is it reported? If you compensated any former board members more than \$10,000, did you report it? After five years, one is no longer a "former board member."

✓ YES

✗ NO

☐
☐

Have you reported any "key" employees* earning more than \$150,000? (Your CEO and COO are not key employees; they are considered officers of the organization.)

☐
☐

Have you reported any non-key employees earning more than \$100,000?

☐
☐

If you compensated any independent contractors more than \$100,000, have you reported it?

☐
☐

If you compensated any former officers or any former key employees more than \$100,000, did you report it?

☐
☐

COMPENSATION PROCESS

The IRS focuses on the process of determining compensation for the chief executive and other key individuals.

Is your board adhering to the intermediate sanctions' safe harbor clauses?

☐
☐

Do you rely on comparable data when setting compensation?

☐
☐

Do independent individuals approve the compensation for top management?

☐
☐

Does the board keep accurate and contemporaneous records of how it makes compensation decisions?

☐
☐

LOANS

The IRS wants to ensure that the board is an independent body that makes decisions for the good of the organization without weighing in personal benefits.

Did the organization refrain from providing loans, grants, or other financial assistance to board members, officers, or key employees?

☐
☐

The Board's Role in REVIEWING FORM 990

A Checklist

DELEGATION OF AUTHORITY

If your board delegates part of its authority to an executive or similar committee, have you described the composition of this group and the scope of its authority in Schedule O?

✓ YES NO

☐
☐

If any board decisions are subject to approval by members, stockholders, or other persons, have you reported this?

☐
☐

BOARD PRACTICES

Did your board members refrain from engaging in direct or indirect campaign activities on behalf of or in opposition to candidates for public office or engage in lobbying?

☐
☐

Did the board and each committee with authority to act on behalf of the board contemporaneously document the meetings held or written actions undertaken during the year?

☐
☐

Does the organization have members, stockholders, or other persons who may elect one or more members of the board, and if so, is it reported?

☐
☐

BOARD POLICIES

Do you have a written conflict-of-interest (COI) policy, are board members and key staff required to disclose interests that could lead to conflict, and are these situations monitored and enforced? Do you share your COI policy (as well as your governing and financial statements and Form 990) with the public?

☐
☐

Does the organization have a written whistleblower policy and document retention and destruction policy?

☐
☐

Did the organization make any significant changes to its articles of incorporation or bylaws since the prior Form 990 was filed and, if so, are they explained in Schedule O?

☐
☐

Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?

☐
☐

FINANCES

Are any assets held in term, permanent, or quasi-endowments reported?

☐
☐

Did the organization receive an audited financial statement for the year for which it is completing this return that was prepared in accordance with GAAP?

☐
☐

The Board's Role in REVIEWING FORM 990

A Checklist

	✓ YES	✗ NO
Were the organization's financial statements compiled or reviewed by an independent accountant? If "Yes," does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant?	<input type="checkbox"/>	<input type="checkbox"/>
Are any non-cash contributions to the organization valued more than \$25,000 — or any contributions of art, historical treasures, or other similar assets, or qualified conservation contributions — reported?	<input type="checkbox"/>	<input type="checkbox"/>
Is any unrelated business income of \$1,000 or more reported?	<input type="checkbox"/>	<input type="checkbox"/>
If the organization invested in, contributed to, or participated in a joint venture or similar arrangement with a taxable entity during the year, has the organization adopted a written policy or procedure requiring the organization to evaluate its participation under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such an arrangement?	<input type="checkbox"/>	<input type="checkbox"/>
MISSION AND PROGRAMS Have you accurately and succinctly described your mission?	<input type="checkbox"/>	<input type="checkbox"/>
If you made any significant changes to your programs — adding, ending, or altering how you deliver your programs — have you explained them in Schedule O?	<input type="checkbox"/>	<input type="checkbox"/>
Have you accurately described the achievements for your three largest program services by revenue?	<input type="checkbox"/>	<input type="checkbox"/>
If you have chapters, branches, or affiliates, do you have written policies and procedures governing their activities to ensure consistency with the organization?	<input type="checkbox"/>	<input type="checkbox"/>

***Who is a key employee?** A key employee meets the following tests:

- Received annual compensation in excess of \$150,000.
- Has responsibilities, powers, or influences over the organization that are similar to that held by an officer (e.g., CEO, CFO, COO) or a board member.
- Manages a discrete segment or activity that represents 10 percent or more of the organization's activities, assets, income, or expenses.
- Has or shares the authority to control or determine 10 percent of the organization's capital expenditures, operating budget, or compensation for employees.
- Is one of the top 20 employees who pass the \$150,000 and responsibility tests.

RED FLAGS, YELLOW FLAGS

Are Your Financial Statements Trying to Tell You Something?



Your financial reports come with warning signals. Do you know where to look for them?

Smoke detectors chirp. Automobile dashboards use an array of lights and colors. Computers flash messages in machine language. What do all of these things have in common? They are all methods of telling us when something we are using is about to stop working or go bad.

Wouldn't it be great if nonprofit organizations came equipped with built-in financial warning signals? How nice would it be if the accounting department chirped when cash was running out, or if boxes popped up on the chief executive's computer when the year's revenue is falling dangerously short of projections?

Financial statements do carry all kinds of warning signals — if you know where to look and how to interpret them. We call them red flags and yellow flags. Red flag indicators mean STOP; ask probing questions, and don't move forward until you're satisfied. Yellow flag indicators mean CAUTION; trouble may lie ahead depending on the answers to some well-formulated questions.

There are red flags and yellow flags in just about every type of financial report, but we'll concentrate on the type of financial information most board members see: the audited financial statements. This isn't an exhaustive list of flags, just a handful of the more helpful and interesting ones.

THE OPINION LETTER

An auditor's opinion letter is a rich source of red and yellow flags. It can be found just inside your audited financial statements, and is formatted like a regular letter.



The first sentence of the letter says something other than "We have audited . . ."

An audit represents the highest level of assurance and reliability that can be given by an auditor to a nonprofit organization. If you see words such as "we have reviewed" or "we have compiled," be forewarned that the information you are about to see has not been subjected to the highest forms of testing and confirmation. In the United States, all but the smallest of nonprofits must have audits each year. Even those not required to have independent audits should strongly consider doing so, since it is the only way an organization can assure outsiders of its own accountability.



A sentence that qualifies the auditors' opinion, usually occurring somewhere in the third or fourth paragraph. The sentence may say something like "except for . . ." or "it was not possible to . . ."

RED FLAGS, YELLOW FLAGS

Are Your Financial Statements Trying to Tell You Something?

This yellow flag means the auditor is giving a qualified opinion. It may amount to little more than a technical provision, but it could suggest deeper problems in the organization. In rare instances, it can be a “disclaimer of opinion,” meaning the record keeping is so bad that the auditor is unable to give an opinion at all. Read carefully, and beware of the word “except....”



The presence of the words “going concern” toward the end of the letter.

No getting around this one — it’s the auditor’s equivalent of pulling a fire alarm. It means the auditor is worried that the organization may go out of business within the next 12 months.



The difference between the end of the fiscal year and the date of the letter is more than 90 days.



The difference between the end of the fiscal year and the date of the letter is more than 120 days.

The date at the bottom of the page is officially considered the last day of field work or the last day the auditor spent a significant amount of time on-site. Ordinarily, audits should be wrapped up within 90 days of the end of the fiscal year. The longer the elapsed time, the greater the cause for worry, because it may suggest the nonprofit was unable to get itself organized in time to complete the audit. Ask probing questions about the reasons for the delay. Even if there are good reasons, it means the information in the audited financial statement is stale by the time the board receives it.

THE BALANCE SHEET

After the opinion letter, you’ll see the Statement of Financial Position, also called the balance sheet. A flag you may find here:



Asset imbalance

Look for the single largest number under “assets.” Depending on the category of asset, you could be seeing evidence of problems. If the amount of cash on hand is large — more than, for example, 10 percent of the total yearly revenue — it may mean the organization’s financial managers aren’t making efficient use of their excess cash. If the amount of cash is small — 5 percent or less of the total yearly revenue — it could mean the organization is cash-starved.

If “accounts receivable” is the largest category of assets, it means the organization doesn’t truly control its most valuable resource. Accounts receivable represent bills that have been sent out but not yet paid. What happens if the people or groups that received those bills never pay them? That would mean the balance sheet needs to be completely restructured, and the financial picture would look grim as a result.

RED FLAGS, YELLOW FLAGS

Are Your Financial Statements Trying to Tell You Something?

THE INCOME STATEMENT

Now move into the body of the financial statements. Look for the second page of numbers, normally titled the Statement of Activities/Income Statement.



Deficits; more expenses than revenue

You'll see parentheses around the number representing the total expenses subtracted from the total revenue. This is not a major cause for alarm, as long as the number appears manageable, but find out why there was a deficit. Is it a fluke, or yet another in a string of bad years? The answers to these questions could reassure you — or prompt you to wave a red flag instead.

THE FOOTNOTES

Finally, look at the footnotes to the financial statements. This is where you will find some juicy details. Here are a few possible flags:



Related party transactions

Not usually forbidden by law (doing so might be a restraint of trade), related party transactions can cause outsiders to question whether the organization is dealing fairly with vendors. Why did the chief executive find it necessary to award her husband that lucrative direct mail contract when there were other companies available?



High interest rates charged on short-term borrowing

Banks are pretty good at assessing risks. If they feel it is necessary to charge a high rate on a line of credit (more than about 1.25 percent over the prime rate), maybe you should be worried too.



Lawsuits against the organization

A lawsuit can devastate a nonprofit organization, even if it is unfounded. See if management's response is included in the footnote. A sad reality — the larger and more complicated your organization is, the more likely it is you will routinely have one or more active lawsuits. Check your state's liability laws. You may have more protection than you think.

Financial statements are never likely to chirp, buzz, or change colors. But they don't have to do that to be useful. They contain lots of yellow and red flags. You just have to know how to see them.

Resource: [Understanding Nonprofit Financial Statements](#)

The Board's Role in SUPERVISING INVESTMENTS

Three Must-Dos

The legal responsibility for supervising investments resides squarely with the board of directors. Whatever authority other parties may have to influence or implement investment decisions, such authority ought to be shaped, guided, and constrained by the oversight of an informed board.

The fundamental challenge for board members is to balance their legal responsibilities against the organization's practical needs. The executive staff is almost always responsible for daily operations, with the CEO or, more commonly, the CFO handling investment operations, including the supervision of outside service providers. But as much as the board depends on the executive team's service, the board may not abdicate its responsibility to supervise.

Good policies help maintain the right balance. With effective policies and procedures, a board can be very active in supervising investments while still delegating authority, encouraging teamwork and community spirit, and articulating a common vision.

There are three actions board members must take to discharge their legal and fiduciary responsibilities — as well as to build a structure that will best promote the organization's investment goals. The laws governing fiduciary investing now clearly provide that when a board takes these three steps, neither the organization, nor the individual board members, shall be liable for the actions of those to whom they delegate, nor for investment losses.

1. ADOPT INVESTMENT POLICIES.

The primary role of policies is to help everyone remember what the board has decided should be done. Written policies help everyone — board members, executive staff, and outside advisors — understand the organization's investment goals and the risks the organization is willing to take to achieve those goals. Since perfection is not required, the first step is to adopt a policy and live with it for a while. You can always make changes based on your experience.

To get started, the board should ask — and answer — the following questions:

- What assets are available to be managed?
- What are our investment goals, time frames, and restrictions?
- What is our tolerance for risk?
- How do we recognize risk?
- What structures and policies need to be created to reach our goals?

The Board's Role in SUPERVISING INVESTMENTS

Three Must-Dos

2. HIRE ADVISORS.

Although the board should not be choosing among specific investments (everything from stocks and bonds to hedge funds and other, alternative investments), someone has to do it. Delegating this responsibility to someone else is not only permissible but preferable, assuming that the board is conscientious and careful in its choice.

3. REVIEW PERFORMANCE.

Hiring an investment advisor is not a one-time event. The board's legal responsibilities are not discharged unless the board, or its investment committee, regularly reviews the advisor's work and the organization's adherence to established policies in a disciplined manner. This is so central to sound investing that any qualified advisor should present a recommended review process as part of the package of services. (If the advisor does not recommend regular reviews, place one hand on your wallet and back slowly out of the room!)

The good news is that these three actions represent a major portion of a board's duties in supervising investments. Adopt policies, hire an advisor, delegate supervision to an investment committee of the board, review, and repeat as necessary. None of this is conceptually difficult. After the board has taken care of the basics, its job is to support the organization's staff, members, beneficiaries, and investment advisors by standing firm in its decisions and giving the basics time to work. This means, among other things, having the courage to stick to your guns during tough times, resisting impulsive policy changes, and refusing to allow the occasional downturn in results to cause hurried changes in allocations.

THE ROLE OF AN INVESTMENT COMMITTEE

While the ultimate responsibility for the health and well-being of the organization rests with the board, most boards delegate the actual authority over more complex operations to committees or to its executive staff. This is often the case with investments.

An investment committee is, typically, a smaller committee of board members that also may also include additional non-directors as committee members. While there are many variations of how investment committees are established, it is not uncommon for the nonprofit's chief financial officer to chair the committee and to act as a conduit between the committee and those delegated to do the actual work. Under most state corporation laws, a board can delegate its authority to properly constituted committees. Therefore, an investment committee can largely serve in the board's place in supervising the investment process. In fact, BoardSource advises that board members should supervise and not actually manage funds themselves. Direct management by board members effectively eliminates independent supervision. The reason to stress the role of an investment committee is that it facilitates the supervisory process by allowing the work to be done by those board members who have the time, interest, and knowledge that such supervision requires.

The Board's Role in SUPERVISING INVESTMENTS

Three Must-Dos

The committee will typically receive and review the performance reports submitted by staff and outside advisors, meet quarterly (or at least annually) with the primary consultant and participate in other meetings or reviews as needed. How active the committee might be will depend on the size of the organization, the complexity of the investments, and the presence or absence of internal staff available to assist. In doing this work, the committee is satisfying the prudent-investor requirement of ongoing supervision of outside advisors and is thereby protecting both the organization and the other directors from liability.

Adapted from [*Who's Minding the Money: An Investment Guide for Nonprofit Board Members*](#)

Additional resource:

[*The Nonprofit Policy Sampler*](#)

3 AUDIT COMMITTEE MUST-DOS

According to *Leading with Intent 2015: A National Index of Nonprofit Board Practices*, 24 percent of nonprofit boards have standalone audit committees, while 47 percent have combined finance/audit committees. Many nonprofits are now required by law to have a standalone audit committee of the board, but even if you are not, you should consider establishing one if your organization's finances are independently audited.*

WHAT IS THE AUDIT COMMITTEE RESPONSIBLE FOR?

BoardSource went to Thomas Raffa, president & CEO of RAFFA, P.C., in Washington, D.C., for the answer. He provided the following three audit committee “must-dos.”

1 **Oversee the external audit process**

The audit committee is directly responsible for the selection, appointment, compensation, oversight, and retention of the independent auditor.

Audit committees should be intimately involved with the selection of the auditor and should review on an annual basis the performance and independence of the auditor. The committee should participate in a planning meeting with the auditor to better understand the audit process and to provide insight to the auditor as to inherent risks that may exist in the operations of the organization.

Upon the culmination of the audit, the auditor should report to the committee concerning:

- all critical accounting policies and practices
- the strength (or weaknesses) found within the internal control structure
- alternative treatments of financial information within generally accepted accounting principles (GAAP) employed by management and the ramifications of their use over methods preferred by the profession and by the auditor
- other matters of formal communications including
- the representation letter signed by management
- the letter to management and the full board covering suggestions for improvements to the systems of internal controls and in the financial accounting and reporting processes
- a schedule of adjustments proposed by the auditor and details of any unadjusted differences

An executive session with the auditor should be a matter of common practice for the audit committee. Staff should be asked to leave the meeting so that the auditor can speak directly and freely to the committee on matters concerning management and the organization, such as

- any disagreements that may have occurred with management
- any major issues that may have been discussed
- whether the auditor is aware of management seeking consultation from other external accountants
- the capabilities of management and the finance department as it pertains to their contribution to the success of the audit

2 **Oversee the financial reporting process**

While the auditor certainly helps the audit committee fulfill one of its primary functions, this relationship, no matter how strong and reliable, can not eliminate the need for the audit committee (in partnership with the finance committee) to oversee the financial reporting process throughout the year and to ensure that the organization's reporting requirements are being met.

3 AUDIT COMMITTEE MUST-DOS

Monthly and quarterly financial statements are the primary way in which to monitor the operations of the organization. The committee should be cognizant of the methods of reporting, enforce the systems to ensure accuracy, and demand timeliness of the data being received. These statements should be discussed with management, and management should be prepared to give a thorough analysis of the results and trends as well as its expectation for the near term future of the organization.

3 Pay attention to risk assessment and risk management, including internal controls

Assessing controls and processes to determine where a fraud can occur or an error can go undetected is to understand risks that can threaten the very life of the organization. It is important to understand that fraud is not just the theft of assets but misreporting as well. Either one can do irreparable harm to the organization. Trusting management and those in your finance department is just not enough. Internal controls that segregate duties or provide supervisory checks keep honest people honest.

The audit committee should be aware of management's actions and attitudes towards improving internal controls and financial accounting and reporting processes. If the auditor is making the same recommendations in the management letter each year, if interim financial reports or the audited annual statement are untimely, if the finance department is understaffed or its infrastructure is unable to support its financial reporting needs, if there is significant and frequent turnover — these are indicators of inherent risk. They also can tell an audit committee about the true “tone at the top” — the attitude from the highest levels of the organization regarding ethical and compliance behaviors of all the employees. For an audit committee to be truly effective, it must influence this tone. It must ensure that management clearly communicates to employees that financial misreporting is absolutely unacceptable. The committee should ask tough questions with the proper amount of skepticism and insist on receiving bad news as well as good promptly and fully. It then needs to react quickly to such issues not only to resolve them but to install preventative measure.

The audit committee should establish specific procedures for handling complaints received by the organization regarding finance, accounting, internal accounting controls, and audit matters. The organization's whistleblower policy should allow for the confidential submission by employees of their concerns of questionable accounting, reporting, or auditing matters. And the audit committee should ensure that each employee receives a copy of the policy and is assured of confidentiality and protection.

Some good questions for the audit committee to ask include:

- Is there detailed planning for internal control documentation and evaluation?
- Did this work identify any weaknesses in internal controls?
- Do we have sufficient resources to maintain the key controls?
- Is our staff adequately trained in such matters?

WHO SHOULD SERVE ON THE AUDIT COMMITTEE?

Audit committee members should be “independent” directors and have expertise in accounting and financial matters. Because there should be a segregation of duties between the audit committee and the finance committee, BoardSource recommends that they should not share members, if at all possible. This sets the primary example of how seriously the organization takes the independence of board members and how it considers an independent audit as the ultimate form of oversight.

3 AUDIT COMMITTEE MUST-DOS

Because some nonprofit boards have a limited number of board members with accounting and financial expertise, it is acceptable for non-board members with this expertise to serve on the audit committee — as long as they do not participate in any formal deliberations and voting. Participation in audit committee formal deliberations and voting should be limited to independent board members. Staff, who are responsible for developing and maintaining financial controls, should not serve on the audit committee.

** You can find out if your state requires your organization to undergo a financial audit by going to the Unified Registration Statement Web site. You should, however, confirm what you find with the appropriate state agency.*

Resources:
[Financial Committees](#)



OF DASHBOARD REPORTS

There are probably as many ways to work with dashboards to realize these benefits of critical thinking and board engagement as there are board members. The following are 10 common ways that have proven in practice to be valuable.

10 COMMON BENEFITS of Dashboard Reports

1. SAVE TIME BY REVIEWING HIGHLIGHTS

Dashboards are not meant to be a substitute for all of the information available to boards, but rather are designed as high-level overviews that combine an array of key indicators on a single page or on sets of pages. This allows them to fit naturally in board books as cover sheets that may appear on top of more detailed reports or online as a top-level link in an increasingly detailed nest of links, thereby permitting the user to drill down to greater levels of detail as needed. Just as with any logistical or navigational tool, dashboards can help the time-constrained board member employ his or her time more efficiently by using highlighted items in the dashboard as prompts to seek more detailed information residing beneath.

2. TRACK PROGRESS TOWARD GOALS

Dashboards can be used as tools for monitoring progress toward agreed-upon goals. The scorecard dashboard style (samples in [The Nonprofit Dashboard](#)) explicitly incorporates actual performance versus goals or benchmarks. Another example of this is a vision dashboard created in the context of strategic planning. Each strategic initiative from the plan will have a set of measures that tell the board whether the intended effects of that initiative are being realized. A vision year is selected (maybe five or 10 years into the future) and the anticipated values for the various measures on the dashboard are set for that year. Depending on the time sensitivity of the measures in question, the board can request this dashboard at appropriate intervals (annually, semiannually, quarterly, etc.) and will be able to quickly gauge the progress (or lack thereof) that has been achieved in approaching the vision year value. Faced with inadequate progress, the board can ask some good questions as to underlying causes, which may result in changing certain policies and practices that will better ensure attaining the vision year goal in question, modifying the goal itself, or some combination of both.

3. UNDERSTAND SYSTEM DYNAMICS

A dashboard brings together a set of key ratios and other metrics in a way that conveys to the board the internal system dynamics of the organization. For those board members who have a limited understanding of how one factor can affect another in producing certain bottom line results, using a dashboard can become a valuable board education tool.

4. SPOT POTENTIAL PROBLEMS

Dashboards can be designed specifically as exception reports that alert the reader when certain performance metrics stray outside of acceptable ranges. These warning light reports and the scorecard dashboards that use traffic light icons (samples in [The Nonprofit Dashboard](#)) are only as good as the metrics and ranges selected. When these reports are well-constructed, boards can use them secure in the knowledge that certain critical factors are being closely monitored. If the board, for whatever reason, lacks confidence in an exception or icons-only style of reporting, dashboards that are more complete and yet structured around critical metrics (such as risk factors) can still serve to alert boards to potential problems in a timely manner.

5. IDENTIFY PATTERNS AND ANOMALIES AMONG SIMILAR ENTITIES

One of the most common uses of dashboards is to array on a single page the performance results of multiple programs or business operating units. This enables the user to efficiently discern any patterns that all programs or units share and/or any anomalies that may call out for explanation.

10 COMMON BENEFITS of Dashboard Reports

The use of small multiples is a good example of how a series of graphic displays that all employ the same scales quickly reveal which units have experienced positive or negative performance over the course of a year. Analyzing the same numbers in tabular form would be considerably more difficult and time consuming.

6. IDENTIFY PATTERNS AND ANOMALIES AMONG DIVERSE FACTORS

The same sort of rapid recognition of patterns and relationships can result from using dashboards that display on the same page a variety of factors or variables relating to a single entity.

7. EXPAND BOARD MEMBER COMFORT ZONES

If the board member asking the above questions is a member of the finance committee, one might assume that his or her special interest in the museum's financial condition prompted these queries, with the dashboard merely serving as a touchstone. But the board member might well have been a member of the curatorial committee who is typically far more interested in issues of an artwork's provenance or quality. When a dashboard's readily accessible metrics and graphic displays result in a board member expanding his or her comfort zone and becoming more fully engaged, then it's a gain for the entire board and organization.

8. BRING ALL BOARD MEMBERS UP TO SPEED AROUND A SHARED KNOWLEDGE BASE

The more board members are conversant with multiple aspects of the organization's operations, the more effective the board can be as a governing team and, hence, the more valuable the board can be to the organization. Dashboards by themselves will not supply the shared knowledge base the board needs, but they can serve as a recurring reminder of the key factors at play and thereby equip all board members with a basic understanding of what makes the place tick. Incorporating the most recent set of dashboards in each new board member's orientation packet, coupled with an opportunity to review them under the guidance of a fellow board member serving as mentor, would be an excellent way to begin the process of sharing this knowledge base.

9. MAINTAIN A GOVERNANCE PERSPECTIVE

When a dashboard is designed with a governance perspective (gauging things like mission impact and outcomes, strategic effectiveness, and fiduciary oversight), it helps to encourage the board to perform its essential governance role rather than derail into some form of surrogate management role. In other words, dashboards can help to instill an organization-wide, policy-level perspective and reduce the tendency to micromanage from the boardroom. In a sense, the very process of defining dashboard metrics can be viewed as a collaborative exercise between board and senior staff that serves to clarify the domains of governance and management.

10. REINFORCE BOARD OVERSIGHT BY LINKING TO STRUCTURE AND PROCESS

Finally, boards should be encouraged to use dashboards not only as stand-alone reports but also as key components in a more complete governance structure that also includes committee structure and meeting schedules and agendas.

Resource: [*The Nonprofit Dashboard: Using Metrics to Drive Mission Success, Second Edition*](#)

ASSESS, ASSESS, ASSESS

Developing a Culture of Board Leadership
through the Rigor of Assessment

by Ann F. Cohen, BoardSource senior governance consultant; principal, Ann Cohen & Associates



ASSESS, ASSESS, ASSESS

A nonprofit board, properly recruited, that institutes appropriate policies and procedures and has individual members who understand their legal duties and responsibilities is likely to be strong and effective. Combine that with accountability for vision-focused inquiry, transparency, ongoing assessment, robust discourse, and mutual respect between the board and the chief executive, and that board is on its way to high performance.

Assessments are the hallmark of high-performing boards. They provide insight to the board for the governance and oversight of the organization, involve the gathering of empirical data on defined areas of performance to make progress on expected performance, and chart a course of improvement, refinement, and/or further progress.

From a governance standpoint, the board of directors has significant assessment responsibilities. Assessments hold people and processes accountable. Generally, the people being assessed are the board members, the board chair, and the chief executive, and the processes being assessed include board governance, strategic planning, committee work, and board meetings. Of course, many other aspects of governance can be assessed, such as the orientation and training processes or the development and fundraising processes. This article identifies several areas where the board must assess matters associated with their governing responsibilities but will focus on board assessments and the two critical assessments that help the board govern optimally: board chair and board member assessments. While each kind of assessment uses a set of standards tailored to what is being assessed, all assessments are designed to identify gaps between current performance and expected or hoped for performance.

Before any kind of assessment is undertaken, it is a good practice to have policies in place that spell out the procedures to guide the assessments. The board should agree on the process, frequency, and accountability for conducting the assessments. Agreement on tools, methodology, timing, review, and readiness to execute is critical to participation. Some boards also have assessment policies that concentrate on the simple importance of this practice.

Board Assessment

In *Leading with Intent: A National Index of Nonprofit Board Practices 2015*, which was conducted by BoardSource and involved the gathering of information from approximately 1,100 nonprofit board chairs and chief executives on their experiences in the boardroom, we learn that

- nonprofit leaders give their boards a B- in overall governance
- 52 percent of boards have conducted a formal, written board self-assessment in the past three years
- 29 percent have never done a board self-assessment
- chief executives of boards that have done a formal, written board assessment in the past three years report higher performing boards and greater board engagement

Assessment results identify strengths and weaknesses, create opportunities for robust dialogue around the standards to be applied, highlight priority areas of focus, and also allow different views to emerge. When demographic information is also sought with the assessment (i.e., comparing responses of new and longer-term board members), the assessment can also allow the board to understand the degree of consensus within the results and compare results from different demographic perspectives.

A comprehensive board self-assessment should address at a minimum the following areas:

- How the board **defines and charts** the course for the organization as embodied in its mission, vision, values and strategies, and how the board uses the assessment on an ongoing basis as a guide for deliberation and ambassadorship in the community and for developing goals for the chief executive.

ASSESS, ASSESS, ASSESS

- How the board exercises its **oversight** of the chief executive, compliance matters, and finances.
- How the board ensures there are **sufficient resources** to support the organization.
- How the board ensures it has the right **composition** to meet the needs of the organization with board members who understand their roles in the boardroom, in committees, and in the public domain.

A solid assessment tool is a learning opportunity. In the asking and answering of questions, board members learn the breadth of their role, and the tool helps to ensure that all board members have a shared understanding of what is expected of them. To be most effective, the assessment should be anonymous with plenty of opportunity for write-in comments.

Who completes the survey is not always obvious. Of course your board members, but determine whether outgoing or incoming board members should as well. This is a question for each board to decide so that there is an accurate read on the state of the governance. Even if new members do not complete the tool, they should review it as a learning opportunity. In addition, the chief executive sits on some boards as an *ex officio* member and thus should complete the assessment. Even where that is not the case, in all but rare circumstances the chief executive should participate. Board assessments should be done every two to three years. There is no best time to start the cycle of assessment, but waiting for everything to be in place is a mistake. Bottom line: Do it now.

Should you use a consultant? It is not necessary, but it can be very useful, particularly as an organization first gets comfortable with the assessment function or in a time of transition. The consultant can assist in the setup and customization that may be desired, work with the board to interpret the responses, analyze the data, tread through delicate issues and how best to present them, and create a broader context for the board. A consultant trained in governance provides recommendations on how to move forward with the results, knows how to present to the board, and understands how to enable the board to take ownership of the results. A consultant can also work with the board on the sequencing and priorities of implementation.

Not every survey results in the creation of a governance task force to design and implement changes, but boards should not underestimate the importance of addressing the results. Oftentimes, immediately following a board meeting to discuss the results, boards set up task forces, address the low hanging fruit, and decide on priorities for change. The actions taken could be a defined statement of roles and responsibilities for board members and board training in such things as fundraising, risk management, succession planning, and more. The range is as broad as the areas addressed in the assessment. Governing is serious work, requiring a rigorous response to a board assessment and using it as a guide to higher performance. Implementation cannot all be done at once, but the assessment results should not sit on the credenza with old personnel manuals.

Assessment of Individual Board Members

Board member assessment is critical to improving individual performance, increasing self-awareness of the role of individual board members, determining board leadership, providing a guide for expectations of board performance, setting an objective basis for renewal of board membership, and more. If a board member is not performing, a policy to evaluate all board members on a regular basis provides the opportunity to counsel, correct, or not renew board service.

There are tools or simple checklists that can be developed to assess individual performance based upon the articulated roles and responsibilities of board members. For example, you can assess a board member's committee work, preparation for meetings, meeting attendance and conduct, and giving. Depending on the use of the board member assessment, it could be a self-evaluation, an evaluation by a designated committee (the governance committee), a

ASSESS, ASSESS, ASSESS

combination of both of these (which I consider a best practice), or a peer evaluation. Self-evaluation allows board members to review their own accomplishments and judge whether they have performed by the articulated roles and responsibilities and to provide a basis for ongoing reflection and learning.

Frequency is important. Board member assessment should be expected and used to enhance board member engagement and participation. Often board members rate their own performance at the same time that they rate overall board performance. At a minimum, individual assessments should be done with new board members after the first year to help them govern and learn, and also for those being considered for another term if multiple terms are permissible in the bylaws. Individual assessments can be a rewarding experience as board members commit themselves to governance and learning; it can also be a delicate and difficult experience that may provide the basis to terminate or not renew a board member. In any event, every organization and mission deserves effective leadership, and a process to continually assess and coach performance helps achieve that.

Board Chair Assessment

Boards need a chair that will facilitate a productive leadership culture, ensure effective dialogue at the board table, keep the board focused on the mission, work to engage each member, select committee leadership, and help the board as a group rise to high levels of leadership. The chair has a significant influence on the organization. When a person assumes the role of chair, it should be clear that there is an assessment process in place, designed to coach and guide the chair for the good of governance and the board. Just because a member is elected to chair does not mean he or she is equipped to lead, and like all assessments, the chair assessment process should be a learning opportunity measuring, among other matters, individual member engagement, meeting facilitation, mission focus, and board management.

Clearly, not all chairs come with a built-in desire to receive performance feedback. The process of giving the chair the coaching and feedback needed is critically important, however, and therefore should be done privately, not with the full board. Ideally, the assessment is conducted annually by the governance committee, with board members providing input anonymously. It also may be useful to have the assessment done external to the organization, by outside counsel, the audit partner, a consultant, coach, or past chair. Because this feedback is so personal, the process should be agreed to with the designation of the position so that the elected chair values the process and the results.

Chief Executive Assessment

It is the responsibility of the board, usually the full board, to participate in the assessment of the chief executive. As the entity to whom the chief executive reports, this assessment process is one of the board's key board responsibilities, and yet, according to *Leading with Intent*, 20 percent of boards have not conducted a formal performance evaluation of its CEO.

All boards should evaluate the chief executive's performance annually. The chief executive can remain accountable for his or her performance only if the position is well defined (and documented in a written job description) and annual goals are mutually agreed upon by the board and the CEO. A formal CEO evaluation benefits and protects both the CEO and the board. The full board bears collective responsibility for hiring and firing the chief executive. Even if the chair or a committee leads the evaluation, all board members should be given the opportunity to provide feedback and review the full assessment. Of course, as a personal matter, the results should remain confidential between the board and the CEO.

ASSESS, ASSESS, ASSESS

Assessing Committees, Board Meetings, Strategic Planning

Each function of the board benefits from assessments, including the three highlighted below.

- **Committees**

The assessment should be very specific to the committee's tasks and address such matters as: Did the committee achieve the purpose of its portfolio? Did the committee advance the work of the board? Did the committee work effectively with staff? Did the committee chair lead effectively and engage the board members? Such assessments should be done on an annual basis and completed by board members and associated staff. The results inform the committee as the portfolio is refined and each yearly agenda is developed.

- **Board meetings**

Board meetings should be assessed at the conclusion of each meeting. Questions might include: Was the meeting focused at the right level? Did the board member feel his/her time was valued? To what extent did each of the specified agenda items fulfill its purpose? Were pre-meeting materials useful? Did each board member feel engaged? Did the meeting flow well, and was there sufficient and diverse discussion throughout? This kind of assessment can be done with a simple survey tool. The critical piece is to seek the feedback immediately following the meeting.

- **Strategic plan**

There should be tools in place for ongoing measurement of your organization's strategic plan. Many organizations use dashboards to do this, which lend themselves to numeric and graphic representation. Increasingly, sophisticated metrics, surveys, and logic modeling are being required by funders. All these measures should point towards the mission and goals of the organization as developed by the board in strategic planning.

The idea of assessing a strategic plan is to ensure that it is not static, but rather a directional document that mandates learning, improvement, and progress. Nonprofits must continue to learn and be receptive to changing needs in their community, even as they pursue specific strategies. Strategic planning assessments are a key function of the board on an annual basis. Each year, whether in a meeting or a retreat, the board should look at the data to determine progress on defined areas of performance, demographic and other environmental changes, and chart a course for improvement, redefinition, and further progress. While not the classic assessment tool, any discussion of the board's role in assessing the organization would be incomplete without this mention of strategy assessment.

In closing, just as a nonprofit's mission and vision describe where the organization wants to go, assessments tell you how you are performing on that journey against goals set by the board and against industry standards adopted for good governance. But while "Not everything that counts can be counted, and not everything that can be counted counts" (William Bruce Cameron), a board that views assessments as critical leadership tools is prepared to embrace the rigor and professionalism of board service that our organizations deserve.

Ann Cohen is an executive business consultant who founded Ann Cohen & Associates in 1999, combining her business and nonprofit experience to enable nonprofits to identify and achieve their strategic goals. Ann is also a BoardSource Senior Governance Consultant, where she provides consulting and strategic advice to boards, their key leadership, and executives seeking to rise to greater levels of effectiveness.

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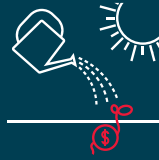
THE 6 CORE COMPETENCIES OF NONPROFIT CHIEF EXECUTIVES

Is Your Board Assessing the Right Things?



PLANNING

Preparing for the future is one of the most critical leadership responsibilities of the chief executive. Working with the board, the chief executive must develop a shared vision for the future of the organization, build understanding around the mission, and develop appropriate goals and strategies to advance that mission.



FUNDRAISING

The chief executive, in partnership with the board and appropriate staff, is responsible for developing and implementing fundraising systems and strategies that enable the organization to meet its financial development goals and carry out its programs and operations.



ADMINISTRATION

The chief executive has overall responsibility for the day-to-day operations of the organization. The chief executive works with staff to develop, maintain, and use systems and resources that facilitate the effective operation of the organization toward the objectives of the strategic plan.



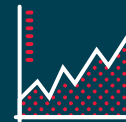
BOARD RELATIONS

Together, the chief executive and the board form the leadership team of the organization. Each arm of the team draws upon its own unique strengths and abilities. The chief executive and board have joint responsibility for developing and maintaining a strong working relationship and a system for sharing information that enables the board to effectively carry out its governance role.



COMMUNICATIONS & PUBLIC RELATIONS

The chief executive serves as a primary spokesperson and public face for the organization. This role has three major components: effectively promoting the organization, advocating for the mission and work of the organization, and building relationships with constituent or stakeholder groups critical to the success of the organization.



FINANCIAL MANAGEMENT

Ensuring that resources are managed wisely is especially important for a nonprofit organization. The chief executive's role is to see that the organization's goals and strategic plan serve as the basis for sound financial management, that solid budgeting and accounting systems are in place, and that appropriate financial controls and risk-management strategies protect the organization's assets.



The consequences of failing to assess the chief executive can lead to mistrust, strained working relationships, ongoing poor performance, and even turnover.

FUNDRAISING ROLES

Who's in Charge of What?

One of the causes for discord in many nonprofits is confusion over fundraising roles. Who is actually responsible for bringing in grants and donations, and who determines the overall fundraising strategy and policies? What tasks belong to the staff and what duties are carried out by the board? Without a true understanding of fundraising as part of the overall financial plan and without appropriate division of labor, it is difficult to secure a strong fiscal base for the organization. The board and the chief executive need to be on the same page on this issue.

WHERE DOES THE MONEY COME FROM?

Keeping all eggs in one basket — relying on one method of fund development — is not a smart formula for securing financial health. In fact, fundraising is only one of the ways for nonprofits to bring in income. Government grants provide about 30 percent of all revenue in the nonprofit sector. Earned income — fees for services or products and membership dues — is often an excellent way to bring about financial stability. In addition, many organizations engage in entrepreneurial ventures that often produce income through unrelated business activities.

FUNDRAISING ACTIVITIES

A nonprofit has many options for bringing in money in addition to fees for services and contracts with government or other agencies. It may write proposals to foundations. It may solicit funds through direct mail. It can rely on annual campaigns and phonathons. Corporate sponsorships may underwrite major events. Small scale special events may be part of the annual calendar. Capital campaigns and planned giving can bring in important funding. Board members make personal contributions. Whatever the type of fundraising an organization decides to engage in, it should make an appropriate choice for its scope and incorporate the activities in the overall fundraising plan.

BOARD

One of the primary responsibilities of the board is to ensure that the organization has adequate financial resources to carry out its mission. The board approves the budget so it must be on top of how the money comes in. The board must agree on the programmatic goals, so it must also agree on how the work gets financed. If one of the ways for the organization to fulfill its obligations is to raise additional funds, then the board must commit to make this happen. Either the board raises the needed funds or it ensures that staff is equipped with the necessary skills and expertise to organize the fundraising effort. In many organizations the two go hand in hand.

The board also drafts the necessary master policies related to fundraising. It ensures that appropriate gift-acceptance guidelines are compatible with the mission of the organization. It clarifies board members personal responsibility to make a contribution or to participate in fundraising activities.

INDIVIDUAL BOARD MEMBERS

If the organization needs and decides to raise funds, it is natural that individual board members do their share. The board should have policies on what is expected in terms of personal giving or participation in fundraising for board members. The overall coordinator of the fundraising effort should include board members in the action plan to ensure that everything is synchronized. As every board member is not equally skilled in the intricacies of

FUNDRAISING ROLES

Who's in Charge of What?

raising funds, a concerted effort for training makes sense. Board members can be great references for potential funders. They can accompany the chief executive on make-the-ask visits. They can sign fundraising letters or be visible attendants at special events. They may recommend or cultivate potential new board members and serve as fundraising guides for less experienced peers.

DEVELOPMENT COMMITTEE

Many boards today look at development as a process whose end result is successful fundraising. This concept allows the organization to take a totally new approach to development committees. Instead of forming a board fundraising committee, it might make sense to form an organizational committee that can be mostly composed of non-board members and that works directly with and reports to development staff. Board members with special skills and contacts would also serve on this committee.

In addition, boards may want to form their own fundraising committees or taskforces as the need arises. As every board is responsible for the overall policy formation, this task force can take the lead in drafting the necessary organizational fund development policies. If the board decides that each board member needs to be individually engaged in fundraising efforts, this task force can serve as a board-level motivator.

CHIEF EXECUTIVE

The chief executive has a key role in fundraising. Working in partnership with the development staff and the board, she acts as the primary representative of the organization. The chief executive tends to spend a significant part of her time on cultivation of major funders and public relations in general. Sometimes the board hires the chief executive mainly to raise funds to let itself off the hook. This is an unfair and unrealistic demand. Fundraising is always a team effort. Division of duties must be clearly defined.

DEVELOPMENT STAFF

When an organization is able to hire professional development staff — development director, grant writers, planned giving experts, or other specialized development consultants — it also has a possibility to diversify its fundraising efforts. The development director usually is the coordinator of the overall fundraising plan. He finds the best way to take advantage of the chief executive's persona, to collaborate with the board to utilize the contacts that board members bring with them, and to hire and supervise the rest of the development staff.

SETTING THE STAGE

Not all nonprofits raise funds. Some are lucky to be self-sufficient and earn adequate income from their products and services. Others have endowments that provide regular operating funds. Only 501(c)(3) organizations (with some exceptions) can receive tax-deductible donations. Other tax-exempt categories therefore are not attractive to donors and funders and therefore must rely on alternate streams of revenue. But if the board of a public charity comes to the conclusion that fundraising is a necessary option, it is imperative that all board members, the chief executive, and the rest of the development staff participate actively in carrying out this responsibility.

BOARD FUNDRAISING POLICY

Key Elements, Practical Tips, and Sample Policy

To remain financially viable and meet its purposes, an organization must have adequate financial resources.

Although the board can and should expect much of the chief executive and management on this score, the board is chiefly responsible for ensuring the organization has the funds it needs and does not spend beyond its means.

For most nonprofits, balancing the budget has two basic dimensions related to revenue:

1. Finding dependable revenue streams (normal earned revenue)
2. Raising private support (gifts and grants)

The expectation of board member involvement in raising private support continues to rise, yet many boards have not created a policy that specifies what that involvement should entail. Board fundraising policies most often indicate the amount board members are expected to contribute to the organization in the coming year and how they will participate in the fundraising efforts of the organization.

KEY ELEMENTS OF BOARD FUNDRAISING POLICIES:

- Personal giving policies state whether a board member is expected to give a certain amount or to give according to his or her means. Funders often ask if 100 percent of board members give.
- Fundraising policies establish expectations for board members to make a personal donation and to participate in solicitation efforts. The policy may list examples of how board members can or should be involved, such as providing names of potential donors, writing or signing fundraising letters, thanking donors personally, accompanying the chief executive on donor and foundation visits, or making the ask themselves.
- Some organizations use a special pledge form that guides board members in thinking about the array of fundraising activities taking place throughout the year and asks them to make an annual fundraising commitment.
- If the organization has a separate fundraising body, such as a foundation or supporting organization, it is still important to outline the role for board members and how they relate to this body — and vice versa.

PRACTICAL TIPS IN CREATING BOARD FUNDRAISING POLICIES:

- To become a committed fundraiser, a board member must first make a contribution. This requirement is the cornerstone of individual fundraising because it allows a board member to use himself or herself as an example of someone who supports the organization.
- Not every board member will be able to give the same size gift. Some organizations stipulate a minimum gift amount; many do not. The policy should encourage each board member to make the organization a priority in his or her personal giving plan or to make what, for that person, is a substantial financial contribution. The policy should not, however, eliminate capable and valuable individuals from joining the board and contributing other skills and expertise.
- Board members possess different skill levels and aptitudes for solicitation. Provide board members with training in fundraising and practical tools like checklists, sample elevator speeches, and steps for approaching a potential donor, to help each member gradually assume more responsibility. Providing mentors and coupling inexperienced board members with staff or more seasoned board members is another way to increase everyone's comfort with personal solicitations.
- Some individuals, because of their profession or position (e.g., journalists, judges), may be prohibited from certain kinds of fundraising solicitations (e.g., workplace campaigns). Seek other opportunities for these individuals so they also can support the organization in a meaningful way.

BOARD FUNDRAISING POLICY

Key Elements, Practical Tips, and Sample Policy

SAMPLE BOARD AND BOARD MEMBER FUNDRAISING POLICY

This statement summarizes how board members are expected to actively participate in fundraising. It refers to three major areas of responsibility in this regard — leadership, personal action, and advocacy — and is also meant to be used as a guide to evaluate board members' performance in fundraising.

FUNDRAISING JOB DESCRIPTION FOR BOARD MEMBERS

Board Member Duties

- Board members must identify and evaluate prospects, cultivate and solicit gifts, actively support fundraising programs by their presence, and offer personal acknowledgments to donors and volunteers.
- Board members are obliged to provide leadership and actively advocate the organization's priorities and the necessity of its fundraising efforts.
- Board members must engage in personal gift support to their level of ability.

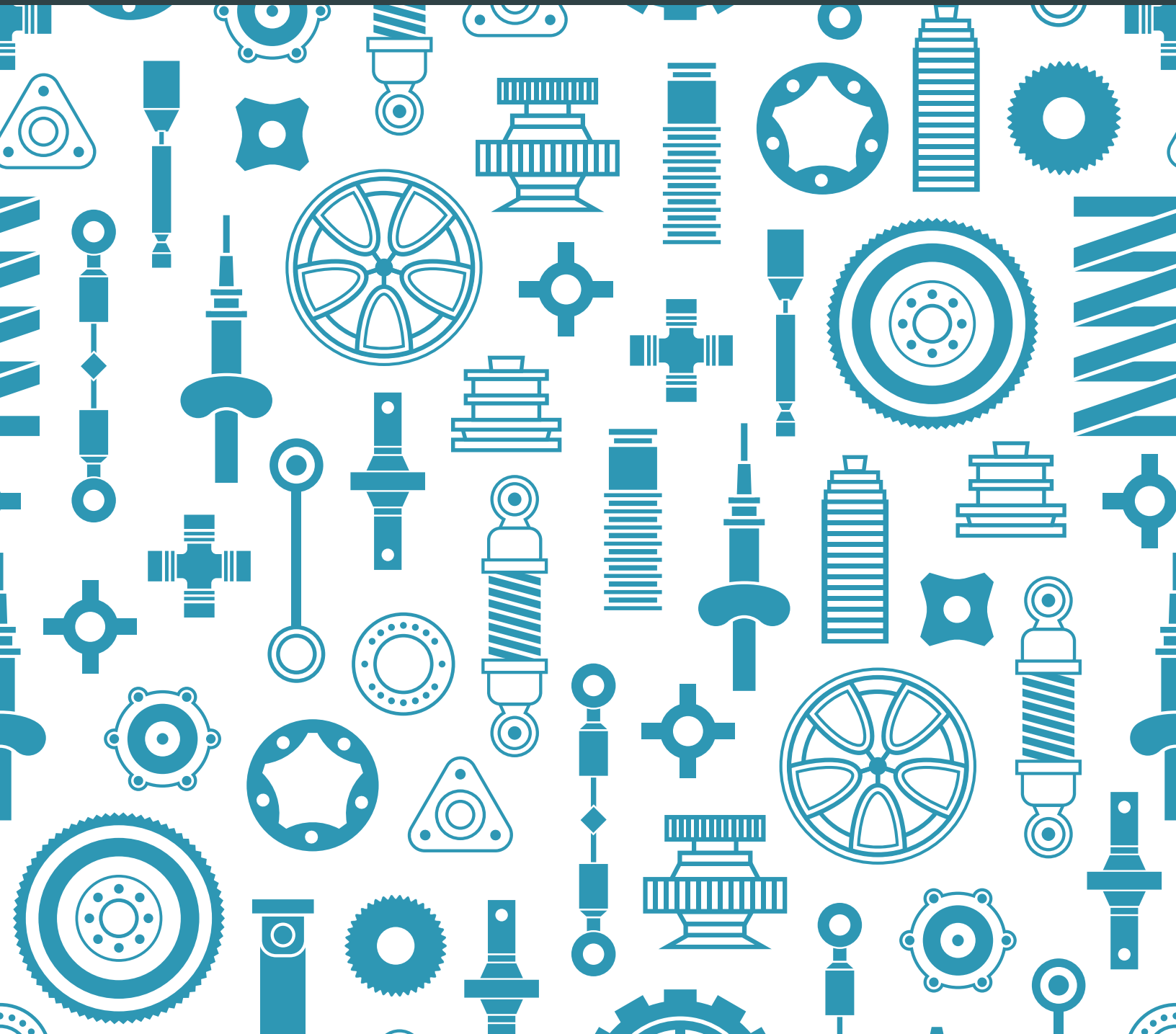
Board Duties

- The board is responsible for attracting and supervising all the resources of the organization to carry out its programs and services.
- The board must develop a strategic plan to deliver benefits to the community it serves and to attract public support.
- The board must deliberate on and develop fundraising plans that address staff, systems, space, and budget.
- The board is part of an essential team, with the obligation to lead, support, and work together with staff and volunteers in the design, supervision, and conduct of fundraising activities.
- The board must select and evaluate the chief executive, rating performance as a key team member in the fundraising team.
- The board must take responsibility for guidance and direction on ethical and professional practices — including use of budget allocated for fundraising activities.
- The board must ensure that budget appropriations for fundraising are evaluated as an investment strategy designed for reliable long-term results from faithful donors, committed volunteers, and reliable net revenue that meets organizational priorities.
- The board must review the results and evaluate the performance of fundraising activities at all levels to their satisfaction, in accordance with established goals and objectives.

Resource:

[The Nonprofit Policy Sampler](#)

Elements of a STRATEGIC PLAN





Elements of a STRATEGIC PLAN

CONTEXT FOR PLANNING

- Statistics, trends, and other research data about the environment in which the organization operates (likely internal and external circumstances)
- Need to strengthen or add new current programs and services (constituent input is especially important)
- Advocating reallocation of limited resources by eliminating weak or tired programs and activities to help finance new and opportunistic ones



Common obstacle in planning: Conflict

When you bring a diverse group of people together to plan, there may be conflict. However, conflict in and of itself is not bad; in fact, it can foster critical, strategic thinking. The challenge is in managing conflict so it doesn't derail the meeting.

PURPOSE, DIRECTION, AND PRINCIPLES

- Statement of mission and purposes (reaffirmation or revision)
- Staffing (current and projected needs)
- Board of directors (membership, size, method of selection, board member performance assessment, meetings, committee structure, and other bylaw provisions)
- Financial projections (income, expenses, reserves, new revenue streams)



Common obstacle in planning: Poor communication

To avoid a breakdown in communication and ensure that relevant parties are kept informed, it is advisable to implement a communications process that systematically manages the information flow.




Common obstacle in planning: Inability to reach consensus


Consensus is essential to strategic planning. Few things are more frustrating than thinking you reached a consensus only to discover soon after that the agreement has fallen apart. It is essential to confirm agreements at every critical juncture.

Elements of a STRATEGIC PLAN

THE CURRENT-YEAR PLAN

- Public education and relations strategies (How do we get our story out?)
- Fundraising goals and strategies that set the stage for subsequently framing an explicit case statement (a case for support from individuals and other funders)
- Membership development and retention strategies (if appropriate)

 **Common obstacle in planning: Missed deadlines**
Continually missed deadlines are evidence that the priority for planning is low. Is there a legitimate explanation, or is there an organizational crisis? Does the timeline need to be revised? A planning process that is drawn out over too long a period loses momentum and commitment. You may need to get renewed commitment from key players.

 **Common obstacle in planning: Unequal participation**
Participative planning assumes that all or most individuals in the organization contribute in one way or another. To address this issue, be certain that the right stakeholders are at each meeting and the facilitator is encouraging input from everyone there.

Sources: [*Driving Strategic Planning, 10 Basic Responsibilities of Nonprofit Boards*](#)

SHAPING THE FUTURE OF YOUR ORGANIZATION

A Strategic Planning Guide
for Nonprofit Leaders

WHAT IS STRATEGIC PLANNING?

Strategic planning is focused on accomplishing the big-picture goals and needs of an organization, rather than just checking items off a task list. It requires broad-scale information gathering, an exploration of alternatives to current practices, and an emphasis on the future implications of present decisions.

It includes:

- defining a strategy for an organization with the greatest possible knowledge of its environment and context
- a written list of the actions needed to carry out the plan
- a method for monitoring the results achieved through the plan

Strategic planning is a disciplined approach to deciding what an organization is, what it does, and why it does it, with a focus on the future. Strategic planning produces a framework that enables the organization to focus its energy, to coordinate the efforts of individuals so that they are working toward the same goals, and to assess its response to changing factors and adjust accordingly. Strategic planning varies widely and has continued to evolve over the past decade. It's up to boards and chief executives to determine what planning process is right for their organizations.

Much of the real value of planning lies in the process, which often results in stronger and deeper relationships and communication patterns among the board, stakeholders, and staff.

Strategic planning is not

- **written in stone.** The essence of a strategic plan is to establish organizational practices and approaches to decision making that will be responsive to change.
- **a departmental, program, or operational plan.** Based on the organizational strategic plan, each department or program will develop its own goals and actions based on the newly defined organizational priorities.
- **going to be effective if it is constantly undergoing wholesale changes.** Strategic plans should be adaptable and flexible in their objectives, but should not allow for the board or chief executive to update the language within the plan to coincide with the constantly changing external environment.

TERMS

Before beginning the strategic planning process, it is important to distinguish between key terms. The following terms may be used differently and have different meanings in the public and private sectors — and may even be used interchangeably in the nonprofit vernacular — but they are distinct.

A **long-range plan**, outlining a long-term vision and direction, includes operating assumptions based upon a relatively stable external environment. A long-range plan is useful when an organization does not anticipate change down the road. It emphasizes a vision and long-term direction more than specific annual objectives.

A long-range plan differs from a strategic plan in that the latter assumes an organization should constantly monitor changes in the external environment and respond accordingly through more frequent planning cycles. A long-range plan is developed and used by the board and staff. These types of plans are being used less frequently for nonprofits since the environments many organizations operate in are constantly changing.

Strategic planning defines what an organization should do in a period of time set by the board. Strategic planning assumes nonprofit organizations operate in a constantly changing environment that must be monitored and adjusted to in terms of strategic directions and activities. Most strategic plans include an assessment of threats and challenges that an organization faces within its operating environment. Strategic planning — which usually encompasses broad

strategic goals and strategies but not specific action steps — is developed and used primarily by the board, staff, and other key stakeholders. It should be noted that many different versions and formats for developing strategic plans exist.

An **operational plan**, also known as an action plan or tactical plan, converts the strategic goals and objectives in a strategic plan into annual plans. An operational plan incorporates the strategic goals and their related objectives and strategies and identifies specific action steps, timelines, budget requirements, responsible people or organizational area, and a monitoring and evaluation process.

Although the board of directors approves and monitors an operational plan, staff and volunteers most frequently develop, implement, and evaluate the plan.

A **business plan** may be developed for the whole organization or for specific programs. It specifies the purpose and provides a snapshot of the market, clients, competition, finances, and key personnel for accomplishing the stated purpose within a given time frame. A business plan includes elements of the strategic plan and operational plan, particularly in the strategic areas of marketing and financial management. It is often used in developing a new program or generating earned income through some mission-related business venture.

In some respects, a business plan is similar to a funding proposal. Like an operational plan, a business plan may be approved and monitored by the board of directors, but its development, implementation, and evaluation are the primary responsibilities of the staff and, in some instances, selected volunteers.

WHY PARTICIPATE IN A STRATEGIC PLANNING PROCESS?

Boards and staff members must be clear about their motivation for embarking on strategic planning, and it might be useful to look at some reasons why strategic planning is important and the benefits it can provide to an organization.

Brings clarity and agreement on mission and vision

Agreement on mission is paramount. Defining a shared vision and then planning based on that desired outcome is the essence of strategic planning.

Additional benefits:

- Strengthens organizational focus
- Promotes effective stewardship
- Garner financial support (particularly from funders who require a strategic plan)

Helps prepare for the future and anticipate and manage change

Strategic planning facilitates making short-term decisions based on long-term implications. Most important, a strategic plan provides a series of agreements about what needs to happen. A sound plan requires thoughtful monitoring by board and staff. In the best of situations, board and staff work together to identify situations in which the strategic plan must be adapted to accommodate unanticipated environmental changes and where the original vision crafted in the strategic plan must be upheld, even if that means tailoring operational plans to meet those goals in another way.

Additional benefits:

- Enables a systematic approach to future thinking
- Encourages thinking outside the box
- Prepares you for possible partnerships
- Allows you to identify existing strengths

Determines priorities and improves decision-making process

With a strategic plan in place, day-to-day decision making and problem solving will be directly related to long-range and short-term goals. Planning reduces stress by making decisions easier. When choices are made within the context of a strategic framework, based on a thoughtful environmental analysis, the organization's direction is clearly defined.

Additional benefits:

- Enables you to concentrate on priorities and key strategies
- Encourages you to assess, reassess, and adjust programs
- Includes opportunities to analyze systems and processes

Align the board and staff and provide an opportunity to recommit to the cause

When individuals are focused on the same goal or outcome, they feel a certain amount of synergy and often set aside differences, help each other, and become invested in a common purpose. Focusing on the future work of the organization can bring the board, staff, and other stakeholders into alignment around the mission.

Additional benefits:

- Builds teamwork, communication, and expertise among board and staff
- Keeps you on track during leadership transitions
- Encourages accountability and the evaluation of organizational effectiveness
- Educates participants about institutional history

COMMON CONCERNS

Getting buy-in to do strategic planning is not always easy. Here are common roadblocks board members and staff raise to oppose strategic planning and advice on how to avert them.

Bad past experience

Clearly define the process in advance, so people will find it less confusing and threatening. Show participants that it includes a commitment to regularly monitor progress on goals, which will likely have a significant impact.

No time to commit to the process or poor forecasting of the level of time needed

Help people understand the long-term benefits. Point out ways that the strategic plan will make daily decisions and prioritization easier. In some situations, an ad-hoc plan created in chunks of "spare time" will be worse than no plan at all. Spend some time at both the board and staff levels calculating the level of "planning tolerance" each group has, and what administrative support can be reasonably given to planning, executing, and documenting meetings and decisions made.

Lack of understanding of how all the parts fit together

In the beginning, give people a roadmap of the planning process. Assure them that they will have the opportunity to respond to the goals and actions being proposed.

Process is exhausting

Comprehensive planning is time consuming, but the discussions that take place during the process are the very conversations that effective, well-managed organizations should conduct on a regular basis if they want to be successful. Additionally, a trained facilitator can make a world of difference, both by managing the process and by freeing up the board's and chief executive's time to commit to the planning process instead of managing logistics or facilitating.

Need to complete the same process again in a few years

If the original plan includes mechanisms for continuous monitoring and evaluation, its recommendations will become integrated into the permanent organizational DNA.

When you are satisfied that board and staff members are ready to begin planning, you will want to think of ways to incorporate the process of planning into the daily life of your organization.

WHERE IS YOUR ORGANIZATION?

To ensure a successful strategic planning process, it is essential to identify where your organization is and where you would like it to go. Start by distributing a survey for both board and key staff prior to beginning the actual planning process.

By exploring key questions, the answers will ultimately aid in determining the best approach your organization should use in developing the strategic plan. Be sure that the participants seek answers in terms of relevance to the organization's future, and not just the present or the past.

Addressing the key questions below can help start the process:

- Is the organization clear about its primary purpose?
- Are new strategic approaches needed for implementing the mission?
- Can existing strategies be implemented in a more effective way?
- Are organizational goals and outcomes clear?
- Should any of our major programs be eliminated?
- Is there a need for new programs and services?
- Is it necessary to consider a totally new approach to our mission?
- Should we consider an alliance or strategic restructuring?

Is your organization ready to plan?

Another set of key questions can help determine whether your organization is ready to begin the strategic planning process.

Is your organization stable?

If your organization is experiencing major funding problems, an upset in the leadership of the organization — be it the chief executive or a major portion of the board — or a potential public scandal that may soon be revealed, the organization is in crisis. Do not start a strategic planning process. A crisis is something that must be handled immediately and then, once the organization begins to restabilize, planning may begin. Usually, when recovering from a crisis, planning becomes quite necessary.

Does a strategic plan already exist?

If your organization has already gone through an extensive strategic planning process in the past, the next question to ask is whether the board is satisfied with the current plan, given any changes in the environment that organization operates and any changes it may see in the future. If the board is satisfied, strategic planning may become a process in which the existing strategies and activities are reorganized but no new strategic initiatives are considered.

How well do current board and staff members understand the existing strategic plan?

Just because a strategic plan currently exists, does not mean it has been used well. Ask your board and staff how comfortable they are with the current document. Has it been utilized to monitor progress thus far? Do people have a level of familiarity with it (or not) that can be used as a common starting ground for a new planning process?

Have key strategies been determined?

If the board, the staff, and influential parties (such as the founder, key stakeholders, consumers, major donors) are committed to key areas of strategic direction, it is important that their input be included in the process in a relatively seamless way. The decision-making prerogative around key organizational directions should be determined at the beginning of the planning process in order to ensure its success and the ownership of all involved.

Is there time to plan?

Strategic planning takes time. It customarily takes six to nine months to complete the process and to have a document approved by the board, but the length of time required will depend on the level of intensity needed and the organization's previous planning experience. Board, staff, and often, a consultants' time are required for gathering data and conducting research and analysis. Don't forget the level of administrative time required for planning meetings, collecting or developing input documents, and documenting key discussions and doing pre-work between meetings.

Is funding available?

Funding support is needed to support research and information gathering, to contract for consulting and facilitating services, and to cover logistical expenses. The first step is to develop a budget. If there is no funding to support any of the planning activities, the organization could attempt to find a pro-bono consultant and donated meeting space, and board members should be prepared to donate additional time and talent. If your organization's budget allows, however, trained and experienced facilitators do provide additional value to the process.

Are board and staff committed to planning?

The commitment of the board and staff is absolutely essential to the success of the planning process.

Board: Its commitment is demonstrated through the board members' willingness to dedicate time to supporting and being involved in the process, to support the expenses inherent in the planning process, and to monitor implementation of the strategies and goals determined by the plan.

Staff: Staff members must be open to new possibilities and willing to spend time information-gathering and planning, earmark funds to support the planning process, and monitor implementation of the strategies and goals determined by the plan. In addition, the staff needs to be committed to assuming new and diverse roles and responsibilities that the strategic plan may direct.

Who should facilitate the process?

Should a consultant be hired?

A strategic planning consultant can play a significant role in facilitating the strategic planning process. Finding a consultant who fits in with the task at hand and with the style of the organization can pose a challenge, so be sure to start the process early and ask for referrals. It's also important to be sure that the planning process (and budget) allows for enough time to bring the consultant up to speed with your organization if s/he hasn't worked with your organization before. In an effective planning process, the consultant has done a good deal of pre-work before ever facilitating a session.

The dedicated task of the strategic planning consultant/facilitator is to keep the process on track. The main functions of a consultant/facilitator involve moving the process forward and ensuring that adequate information is available for educated decision making.

Should a board member act as a facilitator?

Boards should use caution when using one of its members — even an expert strategic planner — in the role of facilitator. The primary reason for using an outside facilitator is to provide neutrality. A staff or board member will naturally have a vested interest in the outcome of some of the issues being discussed and may even unknowingly

create a meeting agenda that will affect the outcomes. If a board member facilitates, s/he must remain objective and limit his/her insights and ideas – not only by his or her own estimation, but by that of the group. Is this person seen by **all** group members as truly neutral? Or, is s/he favored by a powerful few – say, the executive committee members?

KEY ROLES IN THE STRATEGIC PLANNING PROCESS

Full board

The board plays a vital role in strategic planning. As the link between the organization and its environment, the board can help reconcile the ambitions of leaders and staff with the constraints of economic and political realities. The strategic plan will eventually guide the board in decision making, facilitate and help to provide inspiration – in conjunction with the development plan – for the board’s fundraising efforts, and help the board better understand how the organization operates.

The board’s role is to

- set the direction of the organization and balance short-term needs with long-term goals
- ensure that each board member has a role to play in any part of the planning process – even if that role is a thoughtful review and commentary
- add value to discussions by sharing its expertise in legal, financial, marketing, technological, industry-related, and business areas
- offer counsel on the impact strategic initiatives will have on the organization’s fiscal viability and fundraising capacity, and make sure the right questions are asked
- review and approve vision, mission, critical issues, and strategies, usually at a retreat or a series of meetings
- confirm that all individual board members are familiar with the plan and that the full board approves the written planning document
- provide oversight to ensure that the operational plan is appropriately implemented and oversees accomplishment of goals

Chief executive

The chief executive’s responsibility is to ensure agreement on the organization’s goals and methods of achieving those goals. He or she typically takes the lead in recognizing the need for strategic planning and determining whether the time is right to initiate the planning process.

COMMON STRATEGIC PLANNING APPROACHES

Organizations embarking on strategic planning for the first time – or after a long absence – will probably find it most beneficial to follow a traditional planning process, which includes these steps:

- **Planning to plan.** Typically, the chief executive takes the lead in preparing the organization for strategic planning. Planning to plan includes identifying a timeframe, establishing a budget, determining who will participate, and clarifying what form the final planning document will take.
- **Undertake a SWOT analysis.** Board members not only identify the organization’s strengths, weaknesses, opportunities, and threats but also discuss potential strategic responses.

	Opportunities	Threats
Strengths	Where <u>opportunities</u> and <u>strengths</u> are aligned, we need to invest	Where <u>threats</u> and <u>strengths</u> are aligned, we need to defend or mobilize resources or enter into strategic alliances
Weaknesses	Where <u>opportunities</u> and <u>weaknesses</u> are aligned, we need to invest, divest, or collaborate	Where <u>threats</u> and <u>weaknesses</u> are aligned, we need to divest or damage control

- **Review the mission.** Revisit why the organization exists and the unique role it plays within the local, national, or global community. This does not necessarily mean “wordsmithing” your entire mission (although it might include some language changes), but it does get at the importance of making sure that everyone – board and staff – have an opportunity to ensure that the mission is central and that there’s clarity across the group in how it is interpreted.
- **Generate strategies, goals, and objectives.** These should be viewed within the context of the mission, so all of the organization’s undertakings ultimately contribute to advancing its mission.
- **Monitor the plan.** Identify specific data the board can use to review progress toward the anticipated outcomes and, when necessary, make adjustments to the plan.

The chief executive's role is to

- enlist support for strategic planning from board members
- prepare board and staff for planning and ensure everyone understands what is expected of them and how they will contribute
- after the strategic planning has concluded, work with staff to prepare the operational plan
- evaluates accomplishment of strategies, goals, and objectives
- regularly report to the board the successes and challenges that the organization is having in implementing the strategies and accomplishing the goals of the plan

Chief executive and board

- Ensure adequate resources are available to support the process, including both financial and human resources.
- Define the participants and their roles.
- Decide on the best approach to take based on the organization's needs.
- Decide who will be on the strategic planning task force and what the responsibilities will be.
- Determine whether to include an outside consultant in the process.
- Participate in "plan to plan" to guide the strategic planning process.

Staff members

The staff is responsible for the details of operational planning, constituting the link between the top-level vision of the organization and its everyday activities. Having key staff and volunteers on the strategic planning task force is important as it allows them to share unique perspectives and shape the plan they will ultimately be in charge of implementing.

The staff's role is to

- analyze the organization's internal capacity, strengths and weaknesses, and/or working with external parties and consultants to do so
- provide background information, research, data, and institutional history
- bring their unique perspective of programs and services
- keep the mission and vision alive throughout the organization, ensuring that the organization has a sense of shared mission and vision
- offer administrative support to the strategic planning task force (e.g., creating and distributing surveys, organizing data collection, etc.)
- continuously implement the strategic plan in delivery of products, services, and programs

External stakeholders

Constituents' perceptions of an organization are often different from those of the board, chief executive, or staff. Gathering information on these perceptions provides an opportunity to monitor quality and client/customer satisfaction.

Key stakeholders can include clients, customers, or users; staff and board; donors and funders; community partners; members, if it is a membership organization; and even the general public, if it is a public charity.

Stakeholders' role is to

- participate in internal and external assessments during planning
- participate in focus groups, surveys, individual interviews, and any other information-gathering tool the organization chooses to use
- provide a perspective outside of the inner workings of the organization and supply critical information about how the organization's programs and services are being perceived and received

Consultant/Facilitator

Strategic planning consultants have expertise in the steps, nuances, and desired outcomes of the strategic planning process and have meeting facilitation skills; they can also gather and analyze data. Consultants can offer orientation and training to the members of the strategic planning task force to maximize their efficiency.

The strategic planning consultant/facilitator should

- work as a partner with the organization, serving as the expert in process design
- facilitate meetings and create a safe environment to have strategic conversations
- identify what information is needed for planning
- understand the context within which the organization functions
- ensure that all key stakeholders are appropriately involved in the planning process
- plan/lead task force and strategic planning retreat
- ask the “hard” questions — questions that others may be afraid to ask or address — during the preparation for the planning retreat and during the planning meeting itself
- facilitate the discussion around truly innovative, long-term strategies, while not allowing the group to focus on operational short-term solutions
- synthesize and analyze information for easier consumption; carefully and accurately reflect back the thoughts and ideas of board and staff prior to and during the planning meeting(s)

Strategic planning task force

There are many options for structuring the work of a task force – some boards use a “committee of the whole” with the full board and some create a sub-committee of another standing committee. Your organization should decide what works best for your board members and organizational structure. The task force is composed of board members, staff members, and the consultant, and is responsible for navigating the planning process. Its members should be organized and visionary, and understand that their role is to facilitate the process, not to write the plan or to advocate for their personal agendas.

The task force should

- meet on a regular basis to guide the planning process
- determine the approach to planning, the timeline, and who should be involved in the entire planning process
- organize the strategic planning retreat, including selecting those invited to the retreat and drafting the agenda
- prepare the final strategic planning document

After the plan has been written, the board may decide to ask the task force/committee to remain a committee to monitor successful implementation of the strategic planning.

CONTENTS OF STRATEGIC FRAMEWORK

The strategic framework is the record of agreements that have been reached through the strategic planning process. The document is by no means the sole purpose of the process; it is simply the first concrete indication that your planning has reached a measurable junction. The written plan contains the guidelines for future action for your organization based on data that the organization has and assumptions it makes.

By the time a strategic framework gets to the board for formal approval, there should be no surprises. The plan should be clear and logical in addressing critical issues and setting up the necessary goals and objectives that will guide the board and staff.

Strategic plans can contain the following elements:

- **Introduction** – a letter from the board chair and/or chief executive supporting and introducing the plan.
- **Context for planning** – can include a historical synopsis of the organization, internal and external customer feedback results, and a trend analysis of external environmental factors.
- **Mission, vision, and core values statements** – express the organization's reason for being, articulate its ideal or preferred future and that of the community it serves, and identify the values that serve as guiding principles for those most closely associated with the organization.
- **Strategic goals** – define the outcomes the organization would like to achieve in response to critical issues or fundamental challenges.
- **Objectives** – state the end results that will support the achievement of the strategic goals. They indicate what the organization is striving for and provide the link between goals and performance measures. Objectives should be measurable (responsibility, timeframe, outcome) and are often distinct.
- **Strategies** – Some organizations might use strategies instead of objectives in their strategic plans. In this context, strategies define the actions, directions, or means to the end that the organization will pursue to achieve its strategic goals. Strategies indicate how the organization will spend its time and allocate its resources.
- **Performance measure** – organizations should have some way to measure performance following the strategic planning process, but the measurement tactics will be unique to each organization.

DON'T FORGET

KEEP THE FOLLOWING POINTS IN MIND BEFORE, DURING, AND AFTER YOUR STRATEGIC PLANNING PROCESS.



Give your organization a head start. A nonprofit with a strategic plan in place has a head start on the future. Planning will not eliminate every issue in an organization, but it gives an advantage in solving problems.



Demonstrate leadership. In periods of significant social and economic change, when many of the past assumptions on which organizations were built appear to be breaking down and resources are limited, it is even more important for nonprofit chief executives to provide decisive leadership.



Maintain focus. Putting your organization on a continuous cycle of planning and evaluation ensures that it will stay focused on fulfilling the mission and achieving the vision. An investment in strategic planning serves to align the different parts of the organization by providing a common, unifying perspective.



Control your destiny. The ultimate benefit of engaging your organization in a strategic planning process is that it gives all stakeholders a real chance to shape the future — instead of being overwhelmed by it.



Strengthen your board. Participating in such an important endeavor is bound to increase board members' satisfaction with and commitment to their service. With a strategic plan in place, the board agenda can be built around vision priorities, ensuring that all board discussion is strategic in nature.



Invest in your team and reap the dividends. Close collaboration with staff during strategic planning gives individual staff members a sense of being appreciated and considered vital participants in the future of the organization — not just implementers of board wishes. Participation generates accountability — the more someone knows, the more accountable he or she will be.



WHY HAVE A RETREAT?

Sometimes board members need to step outside of the board room to get a better look at the bigger picture.

A retreat offers the opportunity to delve more deeply into strategic issues that there may not always be time to address during regular board meetings.

No matter what its specific objectives, a board retreat can yield a broad range of benefits. It can be

- an opportunity for planning and team building that regular board activities won't allow
- a chance to refocus on fundamentals and to reflect on mission, vision, and strategic goals
- a vehicle for strengthening trust and relationships among board members, between board and staff, or for pulling together a divided board on a critical issue

PURPOSES

- Education
- Training
- Reflection
- Planning
- Socializing

TYPES OF RETREATS

- Board orientation
- Strategic planning
- Fundraising workshop
- Board self-assessment
- Discussion of major internal or strategic issues

BOARD RETREAT

How-to

WHAT TOPICS SHOULD WE ADDRESS?

1) Strategic planning

Because a retreat takes the board away from day-to-day tasks, it is a great opportunity to address long-range issues such as

- reviewing and revising your organization's mission statement and vision for the future. This can include considering changes in the organization's structure such as mergers or strategic alliances.
- reviewing recent achievements, assessing organizational and environmental changes, and approving future initiatives

2) Education on timely subjects

As organizations approach new challenges, it's helpful to take time out to bring the board up to speed on new developments in the field or on topics of particular interest.

3) Board Self-Assessment & Action Planning Session

Framing a retreat around a board self-assessment is a great way to focus the board on its own development, and BoardSource can help with that. [The Board Self-Assessment & Action Planning Session](#) pairs organizations with a BoardSource consultant to facilitate a conversation in your boardroom about the results of your self-assessment and next steps for board development.

The retreat facilitator will engage the board in an honest and productive conversation that focuses on

- ways in which the board is excelling and how to build on those strengths
- areas for growth or development, including sensitive issues that may have been surfaced as a part of the self-assessment
- areas of board performance where there may be divergent views of how the board is performing
- opportunities to clarify expectations and opportunities for enhanced performance
- prioritizing next steps for board development

4) Relationship building

A retreat should include activities designed to build relationships among board members. A board that is not working effectively may consider devoting an entire retreat to relationship building with a skilled facilitator through team-building activities. Key objectives for such a retreat may include

- identifying barriers to collaboration
- building bridges to improve communication, trust, and cohesiveness
- strengthening the board-staff relationship
- improving relations between the board and staff or helping the board better understand the concerns of the organization's members or community served

BOARD RETREAT

How-to

WHERE SHOULD WE HOST OUR RETREAT?

A retreat should be held in an environment conducive to accomplishing the goals you set for it—but it is very important to be far enough away from traditional meeting places to keep participants focused on the work at hand and eliminate the temptation to go back to the office.

- **If possible, the retreat should not take place in an office setting.**
A different environment helps send the message that new ideas and innovation are in order and creativity is desirable.
- **Provide an opportunity for board members to see and interact with your organization's mission.**
Visit a program site or place your board members in the shoes of the community served. Developing a stronger connection to your organization's mission can reinvigorate the board and stimulate new ideas.
- **The retreat location should provide opportunities for recreation as well as work.**
Even if relationship building isn't a major agenda item, it should be an auxiliary benefit of a board retreat.
- **Think about the purpose of your retreat. Do you need special equipment or facilities?**
Ensure you have the right tools to complete the tasks scheduled at the retreat. Some retreat sites may be able to provide additional materials, if necessary.
- **Set ground rules early on about the use of technology (e.g. no cell phones in the meeting area).**
Facilitators can be helpful in setting and enforcing these rules.
- **Think about budget.**
Is your potential retreat location cost-effective? Will the organization incur any additional costs that could be mitigated at a different location? Be budget conscious, but also keep your goals in mind. Don't sacrifice your retreat needs for price.

ALTERNATIVE MEETING SPACES:

- Hiking tour
- Music festival
- Campgrounds/lodges at parks
- Historical sites
- Sporting events
- University conference centers
- Donated space from a for-profit organization
- Rental homes in a desirable location (mountains, country, beach, etc.)
- Other relevant sites that tie the mission of the organization to the board

BOARD RETREAT

How-to

WHEN SHOULD WE HOST OUR RETREAT?

In selecting a retreat date, ask board members and other participants for input. Schedule your retreat well ahead of time to allow board members to put it in their calendars.

How long should the retreat last?

Retreats can last from several hours to several days, often taking place over a weekend. One-and-a-half to two days is about the time needed for a focused, in-depth board retreat. An overnight stay presents opportunities for informal socialization and relationship building that can't be orchestrated in the context of formal meetings and discussions.

WHO SHOULD BE INVOLVED IN OUR RETREAT?

Facilitation

Every retreat needs a facilitator — someone who can help the board plan and conduct the retreats. A facilitator should not be expected to participate in the retreat as a working attendee, nor should the facilitator have any stake in the proceedings except to ensure that participants are fully engaged in activities.

The two essential requirements for an effective retreat facilitator are objectivity and expertise. A facilitator not only has to be neutral during the retreat, but also must understand how participants think, make decisions, and handle conflict in order to help them achieve consensus.

Organization Invitees

- Chief executive – The chief executive is often the only staff member present at board self-assessment retreats.
- Senior managers and professional staff – Everyone whose input is essential to further the discussion and enhance the retreat objectives should be invited to a retreat. For example, staff frequently participate in strategic-planning retreats.
- Spouses and guests – The decision to invite spouses sometimes can be a source of controversy in the retreat-planning process. If the retreat goals and objectives involve relationship building, the presence of spouses can set a more informal tone. The business side of a retreat, however, should not be open to family and friends.
- Honorary and emeritus board members – Usually, retreats are intended for the “working board.” However, if honorary or emeritus board members remain involved in board activities, the retreat planning committee can consider inviting them to attend.

Your goal should be 100 percent participation – attending a retreat is as important as attending a regular board meeting. Discourage board members from arriving late or leaving early; ask an organizational leader to reach out if key individuals do not RSVP or do not plan to attend.

BOARD RETREAT

How-to

PRE-RETREAT INFORMATION

The retreat is not the time or place for lengthy informational reports. Sometimes not much pre-retreat information is necessary, but board members should be well informed about the issues to be addressed at the retreat before they arrive. Some items to consider include

- advance data gathering to assist in designing retreat goals, objectives, and agenda
- articles and background material that can inspire thinking and new approaches to your issues.

Before the meeting, all participants should receive a package including the meeting agenda and reading materials. Usually, the executive staff, in accordance with the direction of the retreat-planning committee, will handle information dissemination.

SOME PRE-RETREAT INFORMATION DEPENDS ON THE TYPE OF RETREAT YOUR ORGANIZATION IS HOLDING.

Strategic planning retreat

Information provided should offer perspective on trends and factors that could impact the organization's ability to achieve its mission now and in the future.

- Financial trends, economic development, competition, legislative or regulatory trends
- Consider including organizational key performance indicators as well such as finances, service volume, program growth, human resources, etc.

Board development and leadership retreats

Consider disseminating confidential pre-retreat questionnaires or interviews focusing on issues that board members may be reluctant to discuss openly

- Board-staff relationship, role of the board chair

BOARD RETREAT

How-to

TIPS FOR YOUR RETREAT

What to do

- **Use icebreaker activities to help your retreat participants relax and get more comfortable with one another.** Choose your activity based on the culture and style of the board and your goals for the retreat – schedule a social event or group exercise before each formal session.
- **Get to work.** Create the agenda for your retreat based on your goals. The retreat should include content specifically tailored to meet the objectives set by the board.
- **Take frequent breaks.** Your retreat agenda should allow time for members to talk informally and relax. Take breaks during a retreat for snacks, beverages, and to encourage participants to stand up and move around.
- **Close the meeting on a high note.** The board chair usually has the last word, thanking the board for its participation and reaffirming his or her initial commitment to the retreat process. Even if the goal was not to develop a list of specific actions, the facilitator, chair, or general manager should take a moment at the end to summarize what has been accomplished.
- **Follow up after the retreat.** Send out a post-retreat evaluation to assess results and assist in planning the next retreat. Distribute any documents developed at the retreat (mission statement, strategic planning, etc.) along with when the board will vote on adoption.

What not to do

- **Overschedule for fear participants will get bored.** Allowing opportunity for discussion and participation is more important.
- **Arrange the seating in theatre or classroom style.** These arrangements discourage participation and open discussion and make it easier for individuals to stop paying attention. Consider a circle, u-shape, rounds, or angling long tables towards a central isle.
- **Vote or make official decisions.** As a general rule, retreats are designed to encourage full participation and creative thinking, not to make binding decisions about the organization. Voting should be left for the subsequent regular board meeting.
- **Plan a retreat without the full commitment of board and executive leadership.** Without the commitment of leadership, it will be difficult to get full attendance and board members will not be as engaged in activities.
- **Fail to establish realistic, meaningful objectives.** Clear objectives are important for increasing the board's willingness to commit to future retreats and for assessing the effectiveness of the retreat. Additionally, don't base retreat objectives on the opinions or ideas of one person or a small group of board leaders.
- **Wait until the last minute to get the facilitator involved.** The more a facilitator knows about your board, the more effectively he or she can help you achieve your retreat objectives. Facilitators can also help ensure the retreat schedule does not adhere to a traditional meeting style or normal

THE BOARD'S ROLE

How the three main roles of the board relate to the 10 basic responsibilities of nonprofit board members:



Sources: [Board Fundamentals](#), [Ten Basic Responsibilities of Nonprofit Boards](#), [Leading with Intent](#), [Legal Responsibilities of Nonprofit Boards](#)

The three legal duties of a nonprofit board member:

Care

Pay attention to the organization's activities and operations

Loyalty

Put the interests of the organization before personal and professional interests.

Obedience

Comply with applicable federal, state, and local laws; adhere to the organization's bylaws; and remain the guardians of the mission.

How current boards rate themselves on the ten basic responsibilities:

Responsibility	CEO	Chair
 Mission	A-	A-
 Financial Oversight	B+	B+
Legal/Ethical Oversight	B+	B+
CEO Support	B	B+
Strategy	B-	B
CEO Evaluation	B-	B
Monitors Performance	B-	B
 Community Relations	C+	C+
Board Composition	C	C+
Fundraising	C	C

THE BOARD'S ROLE

A Checklist



Basic board roles and responsibilities are the foundation for a successful board. BoardSource has designed this checklist so you can quickly remind yourself of your key responsibilities. It's also a great board orientation tool! Can you check all the boxes?

ESTABLISHING IDENTITY AND DIRECTION

- Has the board adopted or revised a strategic plan or defined a strategic direction for the organization within the past three years?
- Does the board ensure that the organization's mission, vision, and values are reflected in the organization's programs?
- Are the organization's strategic priorities adequately reflected in the annual budget?

ENSURING THE NECESSARY RESOURCES

- Has the board adopted policies related to funds to be pursued and/or accepted in support of the mission?
- Does the board expect all its members to be active participants in fundraising efforts?
- Does the board's composition reflect the strategic needs of the organization?
- Is the board confident that the chief executive's skills and other qualities represent a good match for the organization's strategic needs?
- Does the board seek and review information related to the organization's reputation?

PROVIDING OVERSIGHT

- Does the board contract with an outside auditor for the annual audit?
- Does the organization have up-to-date risk management policies and plans?
- Does the board monitor progress toward achievement of goals related to the organization's programs?
- Does the board have a clear understanding of the organization's financial health?
- Does the chief executive receive an annual performance review by the board?
- Are all board members familiar with the chief executive's compensation package?

BOARD OPERATIONS

- Does the board regularly assess its own performance?
- Are organizational and board policies regularly reviewed?
- Do committees and task forces actively engage board members in the work of the board?
- Do board meeting agendas focus the board's attention on issues of strategic importance?
- Do board members have easy access to information needed for effective decision making?

[Source: Nonprofit Board Fundamentals](#)

THE FORMULA FOR EFFECTIVE GOVERNANCE BOILS DOWN TO SIX ESSENTIAL INGREDIENTS

Good governance should be celebrated. It represents a significant achievement, one to recognize and reward. The gratification of contributing to a productive board that enables an organization to advance its mission is reward in itself, but those responsible for making it happen deserve a medal.



RECOMMENDED GOVERNANCE PRACTICES

The nonprofit boards best equipped to lead their organizations are self-aware, function in constructive partnership with their chief executives, and are committed to continually improving their performance. Boards can improve their effectiveness by the intentional adoption of good governance practices.

The BoardSource Recommended Governance Practices reflect BoardSource's decades of experience working with tens of thousands of board leaders and conducting extensive research on board practices. The practices articulate a roadmap for boards toward becoming a strategic asset for their organization, and are arranged in three categories: Essential Practice, Leading Practice, and Compliance Practice.

- **Essential Practices:** BoardSource recommends that all boards adhere to these practices to function successfully.
- **Leading Practices:** BoardSource recommends that all boards adopt these practices to move toward board excellence.
- **Compliance Practices:** These practices address legal requirements and BoardSource's recommended process for compliance.

Boards committed to adopting these practices can find extensive information about them in BoardSource's comprehensive library of resources and publications available at boardsource.org.

ESSENTIAL PRACTICES

E1 Meeting Attendance. Every board member must make it a priority to attend all board meetings and to miss a meeting only under exceptional circumstances.

Meetings are when boards exercise their governance authority. One of the legal obligations for all board members is the duty of care. Without attending meetings — and preparing for them conscientiously — a board member is not able to participate in educated and independent decision making. As state corporation laws allow, the board may accept limited participation via teleconference, but such participation should not be considered a substitute for regular, in-person attendance. Board service is a commitment, and accepting a board position means the meetings must take priority over other obligations except in exceptional circumstances. Every board should have a meeting attendance policy and enforce it.

E2 Term Limits. The board should adopt term limits.

Regular turnover among board members encourages the board to pay attention to its composition, helps to avoid stagnation, offers the opportunity to expand the board's circle of contacts and influence, and provides a respectful and efficient method for removing unproductive members. Seventy-one percent of nonprofit boards have term limits for board members, and the most common are two consecutive three-year terms. Term limits do not prevent valuable members from remaining in the service of the organization or the board in another capacity. An exception is the family foundation that may have a limited pool of qualified and interested candidates.

RECOMMENDED GOVERNANCE PRACTICES

E3 Strategic Board Recruitment. The board must be strategic about member recruitment and define an ideal composition for itself based on the organization's priorities at any given moment.

A matrix for board composition facilitates the board's strategic recruitment efforts. By analyzing the present composition of the board, the governance committee — or the full board if no committee is needed — is able to best determine what qualities, characteristics, and perspectives are already present on the board. When analyzed in light of the organizational strategies, a matrix helps the board identify where gaps exist and then direct recruitment efforts to fill those gaps.

E4 Strategic Planning. The board must play a substantive role with management in developing, approving, and supporting organizational strategy.

One of the board's primary responsibilities is to set the direction for the organization. Strategic planning serves as the road map for this direction and as the tool to assess progress. The full board needs to actively participate in and own the results of strategic planning.

E5 Budget Approval. The board must approve the annual budget.

Staff is responsible for developing the annual budget and, in conjunction with the finance committee, presenting it to the board for approval. As the fiduciary body for the organization, the board must ensure that the budget reflects the overall strategic direction and advances the long-term fiscal health of the organization.

E6 Chief Executive Job Description. The board must develop a written job description for the chief executive and together with the chief executive define the annual expectations.

The chief executive can remain accountable for his or her performance only if the position is well defined and annual goals and expectations are mutually agreed upon.

E7 Chief Executive Evaluation. The board must evaluate the chief executive's performance annually; the evaluation should be written and involve the full board.

A formal evaluation, based on well-defined and mutually agreed upon expectations, benefits and protects both the chief executive and the board. Even if the board chair or a committee leads the evaluation, the full board must participate by being given the opportunity to provide feedback, approve the final evaluation, and ensure all compensation recommendations are appropriate. The evaluation should include 360-degree feedback from the organization's leadership team so the board has an opportunity to gain additional insights from those working closely with the CEO on a daily basis.

E8 Audit. Every charitable organization (excluding houses of worship and those exempt from filing Form 990) with \$1 million or more in revenue should undertake an audit annually. It is the board's role to select the auditor and meet with him or her in an executive session without staff present to discuss the results.

The board is responsible for assessing the potential benefits and costs of an independent audit and determining when it is time to conduct one. When revenues reach the level of \$1 million, the organization is usually engaged in multiple and/or major financial transactions and must rely on an independent auditor's clarification that the financial statements present fairly the financial position of the organization. If the organization conducts outside audits, the board should ideally form a separate audit committee or task force, with no overlap with the finance committee, to facilitate the added responsibilities in fiscal oversight.

RECOMMENDED GOVERNANCE PRACTICES

LEADING PRACTICES

LP1 Consent Agendas. The board should include consent agendas in its board meeting agendas.

Consent agendas promote good time management in meetings. The main purpose of a consent agenda is to liberate board meetings from administrative details, repetitious discussions, and routine tasks. The recovered time should be used for meaningful discussion, allowing the board to focus on issues of real importance to the organization and its future. For consent agendas to be successful, materials for review must be written and sent to the board prior to the meeting, and board members must commit to reading the materials before approving the consent agenda.

LP2 Executive Sessions. The board should have regularly scheduled executive sessions.

Executive sessions provide a venue for handling issues that are best discussed in private, for fostering robust discourse, and for strengthening trust and communication. Distinguished by their purpose and participants, executive sessions serve three core functions: (1) they assure confidentiality, (2) they create a mechanism for board independence and oversight, and (3) they enhance relationships among board members and with the chief executive. Those organizations that must follow sunshine/opening meeting laws should verify their state statutes concerning executive sessions (www.sunshinereview.org).

LP3 Board Diversity and Inclusion. The board should be intentional in its recruitment and engagement of diverse board members and foster a culture of inclusivity.

To value diversity is to respect and appreciate race; religion; skin color; gender and gender identity; ethnicity; nationality; sexual orientation; physical, mental, and developmental abilities; age; and socioeconomic status. Boards should commit to diversity and inclusion by establishing written policies and practices, subject to regular evaluation, that address strategic and intentional recruitment and engagement of diverse board members and ongoing commitment to inclusivity, including equal access to board leadership opportunities.

LP4 Board Evaluation. The board should conduct a comprehensive self-assessment approximately every two years to evaluate its own performance.

Only through structured self-reflection can board members judge their own collective performance and understand the extent of their individual responsibilities. Boards may choose to engage in more frequent evaluations, but it is usually not necessary to do a formal assessment every year. It is important to allow adequate time between assessments to implement identified improvements.

LP5 Board Orientation. The board should formalize its new member orientation process.

The orientation process should be documented and streamlined to ensure all board members receive relevant and consistent information on their governance responsibilities, on the organization, and on the board's own expectations.

LP6 Bylaws Review. The board should review the bylaws periodically and ensure timely amendments when necessary.

Bylaws formalize the board's structure and practices. The board's needs evolve over time, as do the external circumstances within which the organization and the board function. It is necessary to review the clauses periodically to verify their continued appropriateness and to assess what might be missing. An attorney should verify that the bylaws are in compliance with the state statutes.

RECOMMENDED GOVERNANCE PRACTICES

LP7 Chief Executive Serving on the Board. The chief executive should be an ex officio, non-voting member of the board.

The chief executive's input in board meeting deliberation is instrumental and invaluable for informed decision making. However, to avoid actual or perceived conflicts of interest, questions concerning accountability, or blurring the line between oversight and execution, chief executives should be non-voting members of the board, unless not permitted by law.

LP8 Board Job Description. The board should have a written job description outlining the responsibilities of the full board and of individual board members.

Board service comes with expectations and obligations. A written job description defines the collective governance role of the board and reminds it of the various activities that need to be incorporated in the board's annual calendar. The board also should draft a separate set of expectations for individual board members to help them meet their legal obligations and engage productively in the board's work.

LP9 Managing Conflicts of Interest. The board should adopt a conflict-of-interest policy that defines what a conflict of interest is and how it is managed. The board and senior staff should sign annual conflict-of-interest statements, disclose known potential conflicts, and recuse themselves from participating in discussions and voting when conflicts do arise.

Board members must adhere to a legal duty of loyalty, making decisions based on the best interests of the organization. By actively managing conflicts of interest — real or perceived — the board is better able to remain independent and unbiased in decision making.

LP10 Personal Giving. If the organization engages in fundraising, every board member should make a meaningful personal contribution according to his or her means (while not conflicting with any legal stipulations); the board should attain 100-percent board giving.

By making a personally meaningful gift, each board member demonstrates his or her commitment and trust in the organization, which also enables him or her to function as a more credible fundraiser and inspire other donors.

LP11 Board Retreat. The board should include an annual retreat in its meeting schedule.

Retreats allow the board to focus on large and complicated issues that cannot be handled adequately in a regular board meeting. Every board needs to step back at times to reflect on its own responsibilities and practices or to discuss the future of the organization long-term. An informally structured retreat setting is most conducive to strategic discussions, as well as to strengthening the interpersonal dynamics among board members.

LP12 Board Size. The board should determine its optimal size based on its needs.

The primary guide for determining board size is the board's function, which may change over time. Numerous factors influence the composition and thus the size of the board: board responsibilities, committee structure, legal mandates, phase in the organizational life cycle, need for diversity, and maintaining a manageable group. It is impossible for an outsider to recommend a standard size for all boards. However, it is difficult to imagine that a board with fewer than five members is able to incorporate all the desired qualities and capacity or that an exceptionally large board is able to engage every member in a constructive manner. Regardless of size, all board members must be engaged, as all are equally liable for the organization.

RECOMMENDED GOVERNANCE PRACTICES

LP 13 Committees. The board's standing committee structure should be lean and strategic and complemented by the use of task forces.

Only ongoing board activities warrant a standing committee. Other activities are best addressed by time-limited task forces, which are efficient and utilize board members' time, interest, and expertise in a meaningful manner.

LP 14 Executive Committee. If the board has an executive committee, its purpose and authority level must be defined in the bylaws.

Before forming an executive committee, the board should analyze its entire structure to determine whether that particular committee would add value. If the executive committee is given the power to act on behalf of the board, the bylaws need to define the limits of this authority; otherwise, it has the authority to make major organizational decisions that normally belong to the full board. To ensure that the full board remains in control and informed, decisions made by the executive committee should be confirmed by the full board at the following board meeting.

LP 15 Governance Committee. The board should either form a governance committee or ensure that the function of that committee is carried out.

Every board should ensure that recruitment is a continuous and deliberate activity of the full board. For most boards, a separate governance committee is the best structure to take the lead and responsibility for recruitment, ongoing board development, leadership development, board and board member assessment, and board education, and for ensuring that the board is equipped with proper guidelines and structure to do its work most effectively.

LP 16 Form 990 Posting. The nonprofit should post its Form 990 on its own Web site.

Form 990 is a public document and one of the primary tools to shed light on the organization and its finances, activities, and governance practices. By posting the Form 990 on the organization's own Web site and making it easily accessible, the board is supporting and promoting methodical transparency.

COMPLIANCE PRACTICES

C1 Meeting Frequency. The board should have more than the one annual meeting required by law.

State laws usually require at least one annual meeting for all boards, but one meeting is insufficient for boards to address all the issues to which they need to pay attention. Other structures and practices (e.g., board size, reliance on committee work, length of meetings, life-cycle position of the organization, geographical constraints) can affect the necessary number of board meetings and the optimal frequency. The board must meet often enough to ensure it fulfills its fiduciary responsibilities without compromising its efficiency.

C2 Executive Compensation. The board must formalize a process for setting appropriate compensation for the chief executive and approve the compensation package.

The board needs to establish well-defined guidelines on how to determine appropriate compensation for the organization's chief executive. If the board offers too little, it could lose the chief executive to competing organizations; if it offers too much, it risks providing excess benefits and subjecting itself and the organization to intermediate sanctions. The board should follow the IRS's safe harbor measures and rely

RECOMMENDED GOVERNANCE PRACTICES

on comparative data, have the compensation decision determined by independent board members, and contemporaneously record the decision-making process. The full board should approve both the process and the resulting compensation package.

C3 Review of IRS Form 990. The full board should review the Form 990 before it is filed.

Form 990 is the most widely viewed public document concerning the organization, its finances, activities, and governance practices. It is important that board members are familiar with its contents and that it accurately presents the organization to its constituents, donors, and media.

C4 Document Destruction and Retention. The board must ensure that no records are destroyed when the organization is under federal investigation.

Federal law states what must happen in the event the organization is under official investigation. All organizations should have a policy for document destruction and retention to ensure that the law is understood and respected.

C5 Whistleblower Process. The board must ensure that no employee is punished or discriminated against because he or she reported improper conduct.

Federal law states what must happen if alleged improper conduct is reported. All organizations should have a formal, written process to deal with complaints and prevent retaliation. If under investigation, the organization is responsible for showing that it follows a systemized process to address whistleblower cases.

GLOSSARY

of Governance and Board Leadership Terms

#

501(c)(3): refers to public charities and private foundations as defined by the IRS

501(c)(4): refers to social welfare and advocacy organizations as defined by the IRS

501(c)(6): refers to trade associations and business leagues as defined by the IRS

501(h) Election: an option for public charities (except churches) to measure their permissible lobbying activity using an expenditure test

A

Accountability: the acknowledgment and assumption of responsibility for policies and decisions, including the obligation to be answerable for resulting consequences

Ad hoc committee: a temporary committee established to address a specific issue, not necessarily within a specific time frame

Advisory Council: a group created to advise and support an organization or its leadership also called advisory group, advisory committee, or advisory board; usually focuses on a specific issue, area of concern, or constituency

Advocacy: any behavior or action that speaks in support of, recommends, argues for, or otherwise defends or pleads for a cause, mission, or organization that benefits others

Affiliate: a chapter, an auxiliary group, or a branch of a parent organization

All volunteer organization (AVO): a nonprofit organization that is managed and governed by volunteers

Articles of incorporation: an official statement of creation of an organization; it is filed with the appropriate state agency

Articles of organization: a charter for an unincorporated organization

Association: a membership organization that may be incorporated or unincorporated

Audit: a formal review of financial and/or activities and legal transactions

B

Board development: a process of building effective boards; from recruiting and orienting to engaging and educating board members, also includes rotations of board members to ensure a good fit with the organization's governance needs Board member agreement a verbal or written statement of commitment to fulfill responsibilities as outlined in the board member job description

Board member matrix: a tool helping identify desired characteristics and gaps on a board

Board of directors: governing body of a nonprofit or for-profit corporation; has specific legal and ethical responsibilities to and for the organization

Bylaws: the legal operating guidelines for a board

Bylaws amendment: a formal change to the original bylaws of an organization; the bylaws themselves should outline amendment procedures

C

CEO: the chief executive officer; top staff position of a nonprofit organization or a for-profit company

Chair: in a nonprofit organization, the chief volunteer position, the elected leader of the board

GLOSSARY

of of Governance and Board Leadership Terms

- Chapter:** a member or affiliated organization of a federated organization
- Charitable contribution:** a tax-deductible donation given to a nonprofit organization
- Charity:** a nonprofit organization providing a public service as defined by the Internal Revenue Code Section 501(c)(3)
- Charter:** the legal organizational document for a nonprofit; also known as the articles of incorporation or articles of organization; may also refer to a formal description of responsibilities assigned to a committee, a chapter, or an affiliate
- Chief executive:** the top staff position of an organization, also called CEO or, in many nonprofits, executive director
- Code of conduct:** the formal or informal ethical standards expected of every member of a group, whether board, staff, or member of a profession
- Community foundation:** a foundation whose mission is to support a specific community
- Confidentiality clause:** a policy defining unauthorized and improper disclosures of confidential information
- Conflict of interest:** a situation in which the personal or professional concerns of a member of the board or staff may affect his or her ability to put the welfare of the organization before benefit to self or another party
- Consent agenda:** a component of the meeting agenda that groups routine items and resolutions as one agenda item; does not require board discussion prior to the vote; requests for an item to be moved from the consent agenda to the regular agenda are automatically granted
- Constitution:** usually refers to the basic documents governing an organization's purpose, structure, and governance
- Consultant:** an expert providing professional advice or services
- Corporate sponsorship:** a relationship between a nonprofit and a company where the nonprofit receives monetary support, goods, or services in exchange for public recognition of the company
- Corporation:** a legal entity that exists in perpetuity until it is dissolved; a "fictitious person," separate from its managers or governors, usually given the same rights and obligations as natural persons

D

- D&O (Directors and Officers) insurance:** insurance that protects board members and top staff personnel from personal liability created by board decisions or actions
- Determination letter:** an official notification by the IRS stating that a nonprofit is recognized as a tax-exempt organization
- Development:** a term used to describe all methods of obtaining funding or support for an organization
- Disclosure:** form a form on which board members annually detail personal and professional connections that could create a potential conflict of interest
- Disclosure requirement:** regulations requiring nonprofits to share financial or other information with the public, defining IRS form 990 as a public document
- Disqualified person:** includes organization managers and any other person (such as a board member) who, within the past five years, was in a position to exercise substantial influence over the affairs of the organization, also family members of the above
- Dissolution of nonprofits:** the formal procedure by which a nonprofit ceases to operate or exist; involves filing with the state and distribution of assets
- Diversity:** collective mixture of participants from different backgrounds, aiming for inclusiveness rather than mere presence of people from different backgrounds
- Due diligence:** an expectation that a board member exercises reasonable care and follows the business judgment rule when making decisions
- Duty of care:** requirement that board members be reasonably informed about the organization's activities, participate in decisions, and do so in good faith and with the care of an ordinarily prudent person in similar circumstances

GLOSSARY

of of Governance and Board Leadership Terms

Duty of loyalty: a requirement that a board member remain faithful and loyal to the organization and avoid conflicts of interest

Duty of obedience: a requirement that a board member remain obedient to the central purposes of the organization and respect all laws and legal regulations

E

Emeritus status: an honorific title usually given to a former board member who is invited to stay on board as a nonvoting member in an advisory capacity

Endowment: a fund or collection of assets whose investment earnings support an organization, a specific project or purpose; may be legally restricted based on stipulations made by donor(s)

Ex officio: “by reason of their office”; a person serving on a board due to his or her position rather than through elections, may or may not include voting rights

Excess benefit transaction: a transaction in which an economic benefit is provided by a nonprofit, directly or indirectly, to a disqualified person, and the value of the economic benefit provided by the organization exceeds the value of the consideration (including the performance of services) received by the organization

Excise tax: a tax issued by the IRS on nonprofits that violate specific regulations

Executive committee: a committee that has specific powers, outlined in the bylaws, which allow it to act on the board’s behalf when a full board meeting is not possible or necessary

Executive session: a meeting of a board in which only board members and individuals specifically invited by the board are present; governed by rules of confidentiality

F

Federated organization: an organizational structure composed of an umbrella organization (national or regional) with smaller local chapters

Fiduciary duty: a responsibility of board members and the nonprofit board as a whole to serve as trustee of the organization’s assets on behalf of the greater community; responsibility for financial viability and proper handling of financial matters

Form 990: an annual information form submitted to the IRS, a public document listing information concerning an organization’s finances and programs, as well as names of board and highest paid staff leaders

Form 990-PF: an information form for private foundations to be filed with the IRS

Form 990-T: a financial form for organizations who must pay unrelated business income tax

Form 1023: an application form for nonprofits that want to be recognized as a 501(c)(3) organization

Form 1024: an application form for nonprofits that seek tax-exempt recognition as any other type of 501(c) than a 501(c)(3) organization

Foundation: a tax-exempt nonprofit organization operating under more stringent IRS regulations than other 501(c)(3) organizations; may be designed to collect and distribute funds for nonprofit purposes or may operate its own programs

Fundraising: a wide variety of activities that help generate donations for an organization

G

Governance: the legal authority of a board to establish policies that will affect the life and work of the organization and accountability for the outcome of such decisions

GLOSSARY

of of Governance and Board Leadership Terms

Governance committee: a committee responsible for recruiting, orienting, and training of board members; may also be responsible for periodic bylaws reviews

Grant funding: provided to an organization through a foundation or government source for a specific purpose

I

Incorporation: a legal process through which a group is created and recognized by the state as an entity separate from the individuals who manage or govern it; limits individual responsibility for actions of the group

Indemnification: a guarantee by an organization to pay board members' legal costs for claims that result from board service

Intermediate sanctions: IRS regulations creating penalties for nonprofit board members and staff who receive or authorize an excessive benefit transaction

L

Lobbying: attempting to influence legislation through direct contact with lawmakers or with constituents

M

Membership organization: a nonprofit that grants its members specific rights to participate in its internal affairs and/or to receive certain benefits in return for payment of membership dues

Merger: combining two or more organizations into one

Micromanagement: this usually refers to a manager who is paying too much attention to details and is not focusing on the big picture; also refers to boards that stray into management and fail to respect the authority delegated to the chief executive

Mission: the fundamental purpose and reason for which an organization exists

Mission statement: a brief description of the organization's approach to filling the need it was created to address

N

Nonprofit organization: a nongovernmental organization established for purposes other than profit making

Nonprofit sector: includes organizations that are independent from government and not part of the for-profit business sector

Not-for-profit organization: a term emphasizing that while the organization's purpose is not private profit making, its programs may make a profit for the organization in order to safeguard its future ability to serve its public benefit mission

O

Officer: a leadership position with a specific set of responsibilities; on a board typically refers to the chair, vice-chair, secretary, or treasurer

Open meeting laws: also called "Sunshine Laws"; state regulations that require government agencies and some nonprofit organizations receiving public funding to open at least some of their board meetings to the public

Operational reserves: a reasonable buffer against unforeseen, seasonal, irregular, or exceptional cash shortages

Orientation: educating participants on their roles, responsibilities, their organization, and how the board works

GLOSSARY

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P

Policy: a written and binding guideline for action; creates limits on the range of acceptable options

President: a term used to describe either the chief volunteer officer or the chief staff officer of an organization

Private inurement: benefits received by an insider with sizable influence over a nonprofit organization's decisions when benefit is of greater value than service provided

Public support test: an IRS regulation used to determine whether a nonprofit organization is a private foundation or public charity; involves determining the source of the majority of funding for the organization

R

Retreat: an event where the board or staff meet to learn about or explore specific issues; examples include strategic planning, orientation, or self-assessment; is usually longer than a regular meeting, often off-site and informal in nature

Robert's Rules of Order: a parliamentary procedure used to conduct meetings

S

Secretary: an officer position that involves taking minutes and keeping records and archives of the board; duties are often delegated to staff

Self-assessment: a process by which boards and/or board members evaluate their own performance

Staggered terms: an organizational structure where board members' terms expire in alternating years

Sunshine laws: also called open meeting laws; state regulations that require government agencies and some nonprofit organizations that receive public funding to open at least some of their board meetings to the public

T

Tax-deductible donation: a donation in which the donor can deduct the amount of the donation from his or her taxable income

Term limits: a restriction on the number of consecutive terms that a person can serve as a board member

Transparency: a system of operation and communication that enables people to understand how the organization operates, makes decisions, and uses resources; an important aspect to ensure public trust

Treasurer: a board officer position that is responsible for coordinating and ensuring financial oversight of the organization

V

Values statement: a written description of the beliefs, principles, and ethical guidelines that direct a nonprofit's planning and operations

Vice chair: a board officer whose main duty is to replace the chair when the chair is not able to carry out his or her duties; may or may not imply position as chair-elect

Vision: a picture or a dream of a desired future

Vision statement: a written description of what the organization intends to achieve at some point in the future, either in terms of the organization itself or in terms of the impact the organization will have had on the community

[Source: Nonprofit Board Fundamentals](#)

The Nonprofit Board Member's Go-To

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A

Accounts payable: The amount of money known to be owed (i.e., unpaid invoices that have been recorded) to vendors and suppliers that have provided goods or services to an organization.

Accounts receivable: Money owed to a nonprofit for services rendered or goods provided on credit.

Accrual accounting: Accounting method that recognizes transactions when they occur, rather than when cash is received or paid. (Contrast with Cash-basis accounting.)

Accrued liabilities: The amount estimated to be owed (i.e., invoices that have not yet been received and recorded) to vendors or suppliers that have provided goods or services to the organization.

Amortization: The process of allocating the original cost or fair value of a long-lived intangible asset over its estimated useful life. (See Depreciation.) Conceptually, depreciation and amortization are the same thing. In practice, depreciation is most often used with tangible assets, and amortization with intangible assets and liabilities.

Annuity gift (gift annuity): A contribution given on the condition that the recipient organization make periodic stipulated payments to the donor or other designated individual. After termination of the stipulated payments, the organization keeps the remaining principal of the gift.

Asset: Something of value owned or controlled by a person or organization.

Audit: The procedures performed by an independent certified public accountant (CPA) to be able to give an opinion that an organization's financial statements are fairly stated in all material (significant) respects.

Audit committee: A committee of the board whose primary function is to accept and review reports provided by external auditors and to select the firm that will provide the next year's audit.

Auditor: The Certified Public Accountant (CPA) who conducts an independent audit for a nonprofit.

Average payment period ratio: Measures the average time that elapses before an organization's current liabilities are paid.

B

Bad debts: Accounts receivable that are deemed uncollectible or of doubtful collection.

Bad-debt expense: A statement of activities account that includes credit sales that are written off as uncollectible.

Balance sheet: See Statement of Financial Activities.

Balanced scorecard: An integrated set of measurements assisting an organization in keeping track of its outcomes as compared to its goals. It utilizes four performance measures: financial perspective, customer perspective, internal perspective, and learning and growth: to help monitor and improve an organization's level of effectiveness.

Benchmarking: Compares ratios, trends, and analyses (both financial and nonfinancial) of a nonprofit with those of its peers, and measures an organization's results against its best-performing peers.

Bond: A certificate of debt issued by a government or corporation to raise money for an organization.

Bonding: A type of insurance recommended to have in place covering all volunteers and employees who have access to the organization's cash or other valuable assets. If a covered individual misuses funds, the organization will recover its loss from the bonding company (up to the amount of the bond).

Budget: A detailed annual financial plan that anticipates and projects both revenues and expenses of an organization.

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C

Capital expenditures: Funds that are used to acquire long-term assets, such as buildings, land, equipment, etc.

Capitalization: Converting an expense into an asset; it spreads the cost of an asset over the length of time of its usefulness. **Capitalization of a fixed asset** converts an expenditure into a fixed asset, based on the dollar value and useful life of the asset.

Cash: Assets in the form of currency, or cash equivalents that can be easily and quickly converted into currency.

Cash-basis accounting: Accounting method that recognizes transactions only when cash is received or disbursed. (Contrast with Accrual accounting.)

Cash/current: Generally includes cash in bank accounts, **cash equivalents** (anything easily convertible to cash within one day, such as money market accounts), and certificates of deposit (if less than 365 days to maturity).

Cash flow: The process in which cash is received and disbursed by an organization. Many nonprofits have a cyclical cash flow with a larger influx of cash based on year-end contributions or prior to the annual meeting, and significantly lower receipts at other times of the year. As a result, good managers of financially weaker nonprofits will be quite familiar with the cash flow pattern of their organization and plan expenditures accordingly.

Cash/noncurrent —Generally includes cash designated for capital replacement and acquisition that is invested in longer-term assets (such as Treasury bills or bonds) and trustees' investments (cash set aside from bond proceeds to be used in capital projects), with maturity expected to exceed 365 days.

Conditional promise to give: A promise to give that depends on the occurrence of a specified future and uncertain [qui vide] event to bind the promisor. (See Donor-imposed condition.)

Conflict-of-interest policy: A written document intended to ensure that decisions made about an organization's operations and the use of its assets are made solely with the best interest of the organization in mind, and that no private or personal benefit to any affiliated individual will result. All board members and key employees should be cognizant of the conflict-of-interest policy, and annually disclose whether they have any "interests that could give rise to conflicts" (IRS Form 990).

Consolidated financial statements: Financial statements that include added-together financial information for two or more related entities.

Contribution: An unconditional transfer of cash or other assets to a qualified tax-exempt organization (or a settlement or cancellation of its liabilities) in a voluntary nonreciprocal transfer by another person or entity. (Contrast with Exchange transaction.) Contributions include gifts of money, property, the use of property, and services of volunteers; unconditional promises to make gifts in the future; and bequests.

Current ratio: Measures an organization's liquidity, or how readily the organization is able to pay off all its current liabilities.

Custodian fund: Funds received and held by an organization as a fiscal agent for others.

D

Dashboard report: A report that communicates critical information in a concise, visual, more compelling way than traditional narratives or financial statements. This type of reporting allows leaders and managers to focus on key trends and relationships that are fundamental to the success of the organization.

Days cash on hand ratio: Measures the number of days of average cash expenses that an organization maintains. The ratio can be expressed in terms of either days cash on hand in short-term sources or in all sources.

Days in accounts receivable ratio: Measures the average time that accounts receivable are outstanding (also known as the average collection period).

Debt service coverage ratio: Measures the ability of an organization to pay back its long-term debt by comparing its bottom line cash with its annual debt service payments (principal + interest expense).

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- Deferred gift:** A gift whose benefit to the nonprofit recipient is delayed until a later time. (See Split-interest gift.)
- Deferred revenue:** Revenue received in one accounting period that, because it has not yet been earned (by the provision of goods or services to the payor), is recognized in a later accounting period when the goods or services are furnished. Example: A theater subscriber pays for season tickets in June for the season starting the following September. As of June 30, the theater records the revenue as deferred until the season when the plays will be performed opens.
- Depreciation:** The process of allocating the original cost of a long-lived tangible asset over its estimated useful life. (See Amortization.) Conceptually, depreciation and amortization are the same thing. In practice, depreciation is most often used with tangible assets, and amortization with intangible assets and liabilities.
- Depreciation expense:** An expense on the statement of activities arrived at by allocating (amortizing) a defined part of a long-term asset over its estimated useful life.
- Designated fund(s):** Refers to unrestricted resources that the board has voted to set aside for a period of time or for a specific use. While the board may use the term “endowment fund,” because the restriction was set internally, the funds can be made available by the board for any use at any time. Hence, board-designated funds are correctly classed with unrestricted net assets.
- Directors’ and Officers’ Insurance:** A policy that protects the board and officers if they are acting responsibly by covering a variety of potential vulnerabilities, including libel and slander, acts beyond granted authority, wrongful termination and/or discrimination, inefficient administration or waste of assets, and the like.
- Disclaimed opinion letter:** See Opinion letter.
- Donor-imposed condition:** A donor stipulation that specifies a future and uncertain event whose failure to occur releases the promisor from the obligation to transfer assets (or gives the promisor a right of return of any assets it has already transferred).
- Donor-imposed restriction (related to temporary restriction):** A donor stipulation that specifies a use for a contributed asset that is more specific than broad. A restriction on an organization’s use of the asset contributed may be temporary or permanent.
- Donor-restricted endowment fund:** An endowment fund created by a donor stipulation that requires investment of the gift in perpetuity or for a specified term. (See Endowment fund.)

E

- Efficiency ratio:** Measures the proportion that a nonprofit is spending on programs to achieve its mission by comparing spending on management and general plus fundraising to its spending on programs.
- Endowment fund:** An established fund of cash, securities, or other assets to provide income for a nonprofit organization. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Restricted endowment funds are established by donor-restricted gifts and bequests to provide a permanent endowment (a permanent source of income) or a term endowment (income for a specified period).
- Exchange transaction:** A revenue transaction related to the provision by an organization of goods or services to customers in exchange for payment of approximately commensurate value. (Contrast with Contribution.)
- Expenses:** What an organization spends to conduct its activities (for example, salary, office supplies, rent).

F

- Fair value:** The amount at which an asset could be bought or sold in a current transaction between willing parties: that is, other than in a forced or liquidation sale; usually equivalent to market value.
- FASB (Financial Accounting Standards Board):** The private sector body primarily responsible for setting generally accepted accounting principles (GAAP) for all nonprofit and for-profit entities other than governments.

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Fixed assets: Tangible property with a long-term useful life, such as land, land improvements, buildings, building equipment, movable equipment, furniture, leasehold improvements, or capitalized leases.

Footnotes/Notes to financial statements: Addenda to the financial statements. Some are required by GAAP, such as the first footnote on all financial statements, which is a summary of significant accounting policies used in the creation of a nonprofit's accounting books and records. Additional notes may be used to describe the nonprofit's programs, investments and investment policies, affiliated organization investments, property and equipment, lease commitments, contingent liabilities, long-term debts and leases, joint cost allocations, related party transactions, pension plans, temporarily and permanently restricted assets, and any significant subsequent events.

Form 990: The Internal Revenue Service (IRS) form used to report annually to the IRS (and to many states) on the financial and other activities of a tax-exempt organization.

Functional expenses: A method of grouping expenses according to the purpose for which costs are incurred. The primary functional classifications are program expenses, fundraising expenses, management, and general expenses. (Contrast with Natural expenses.)

Fund: An accounting entity established to track the resources of a specified subpart of an organization, such as a project, donor-restricted gift, board-designated pool of assets, activities in a certain geographic area, fixed assets, or other defined unit.

Fund balance: The excess of assets over liabilities of a particular fund of an organization. (See Net assets.)

Fundraising expenses: Expenses incurred to induce donors, foundations, and others to make contributions to an organization.

Fundraising ratio: Measures the efficiency of a nonprofit's fundraising programs by comparing the amount spent on fundraising to how much it receives in contribution and grant revenue.

G

GAAP (Generally Accepted Accounting Principles): The rules for recording and reporting transactions in financial statements. In the United States, these are promulgated primarily by the Financial Accounting Standards Board and secondarily by the American Institute of Certified Public Accountants (AICPA).

GAAS (Generally Accepted Auditing Standards): The procedures undertaken by an independent certified public accountant to issue an opinion on the fairness of the presentation of financial statements. In the United States, these standards are promulgated by the AICPA.

Gift-in-kind: A contribution other than cash or marketable securities. Includes property, supplies, equipment, use of property (free rent), and qualified donated services of volunteers.

Grant: Properly used to refer to an award by a foundation, company, nonprofit organization, or government agency to an organization or individual. The word does not have a precise meaning in accounting and is often used interchangeably with contribution; however, not all grants are contributions: some are exchange transactions.

I

Income Statement: See Statement of Activities.

In-kind donation: See Gift-in-kind.

Interest expense ratio: Measures the overall average percentage interest rate being paid by the organization to finance its debt.

Interest income ratio: Measures the overall average percentage earnings on all of the organization's assets that have the potential to be invested.

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Internal controls: Those processes and procedures that protect the assets of an organization and promote its efficient operation thus helping to ensure its long-term stability and continuation of programs. Good controls act as both a deterrent to, and detective of, improper behavior by staff and volunteers. The key to good internal controls is segregation of duties. The general rule is that no one person should be in a position to completely control all aspects of a transaction from its initiation through approval, handling of assets, and recording.

Intermediate sanctions: Penalties that may be imposed by the IRS when it finds any evidence of inappropriate personal gain (termed private inurement) in a nonprofit that it is auditing. In these cases, not only must the recipient return the excessive financial benefit and pay penalties, but the IRS may impose financial penalties on board members and managers who knowingly approved the transaction or contract.

Investment committee: Drafts and oversees the organization's investment policies, including liaison with outside investment advisors. Because this committee monitors investment performance, it needs members who are familiar with investing. In most cases, the committee does not become involved in the details of individual investment purchase and sale decisions but hires outside advisors to do so. The committee should monitor the activities of the outside advisor to ensure that the organization's investment policies are being adhered to.

Investment policy: A board-approved document that delineates a specific philosophy of investment management and establishes parameters for investment risk and return. Some policies, especially those for organizations with smaller reserves, indicate which specific investments are allowed. For example, a very conservative investment policy might allow only FDIC-insured bank accounts with balances under the \$100,000 limit and short-term U.S. Treasuries. The policy should assist and protect designated investment managers by setting up practical guidelines and clear performance objectives. It should also establish a process for regularly reviewing investment objectives and strategies and reviewing the manager's performance.

Joint costs of multipurpose activities: Costs incurred in an activity that includes at least two different types of functional expenses (most often, program and fundraising components). Organizations mailing requests for contributions that also educate potential donors must take exceeding care in appropriately splitting the costs of such mailings between the two functions.

Liabilities: Everything an organization owes, the sum of its debts and obligations. **Current liabilities** are those that are due to be paid within 365 days; **long-term liabilities** have a due date beyond 365 days.

Management and general expense: Expense other than program, fundraising, or membership development. Includes expenses for oversight, business management, general record keeping, budgeting, financing, and related administrative activities.

Management letter: Sometimes called an internal control letter. A communication from the organization's auditor that the board should always receive following an external audit, it provides the auditor's observations on any control deficiencies, significant deficiencies, or material weaknesses discovered in the internal control structure of the organization during the audit. Significant deficiencies represent serious matters, and material weaknesses are very serious matters. Both require the board's immediate attention, followed promptly by corrective action.

Membership development expense: Expenses incurred to induce new members to join a membership organization.

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Member's audit: A process used to provide limited assurance to the membership in which two or more financially astute volunteers visit the organization and test some of its fiscal activities and records, such as cash disbursements, cash receipts, whether key assets actually exist, and whether the payroll records are in good order. As with an external audit, no area of activity can be sacrosanct for a members' audit. The volunteers undertaking this effort must feel free to look where they please and be creative in their investigations. Some organizations that use member audits have an external auditor accompany the volunteers to aid or guide their efforts.

N

Natural expenses: Classification of expenses by categories such as personnel costs, occupancy, travel, supplies, and professional fees. (Contrast with Functional expenses.)

Net assets: The excess of assets over liabilities of a fund or an entire organization. Net assets may be categorized as unrestricted, temporarily restricted, or permanently restricted. (See Donor-imposed restriction.) Net assets are sometimes referred to as net margin.

Net (or total) margin ratio: Measures profitability based on all revenues, including non-operating revenues. This typically means investment income is included, although it is generally classified as non-operating.

Nonprofit Audit Guide: Periodically updated collection of generally accepted accounting principles (GAAP) and other authoritative guidance, as they apply to nonprofit organizations' accounting. Issued by the AICPA.

Not-for-profit/Nonprofit organization: An entity that possesses the following characteristics that distinguish it from a business enterprise: (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises. Nonprofit organizations have those characteristics in varying degrees. Organizations that clearly fall outside this definition include all investor-owned enterprises and entities that provide dividends, lower costs, or other economic benefits to their owners, members, or participants, such as mutual insurance companies, credit unions, cooperatives, and employee benefit plans. (See Tax-exempt.)

Nonreciprocal transfer: A transaction in which an entity incurs a liability or transfers an asset to another entity (or receives an asset or cancellation of a liability) without directly receiving (or giving) value in exchange. (See Contribution.)

O

OMB Circular A-133: Publication of the U.S. Office of Management and Budget, which requires that organizations spending \$500,000 or more of federal grants and contracts in a year have a special audit of those federal funds. (The OMB recently increased the spending amount to \$750,000, to be phased in based on the ending date of the fiscal year. See the Circular or contact your auditing firm for precise definitions.)

Operating margin: The excess or deficit of revenues over expenses.

Operating margin ratio: Measures profitability by comparing an organization's bottom line (the excess of support and revenues over expenses) to its total revenues.

Operational reserves: See Reserves.

Opinion letter: Produced by an organization's external auditors at the conclusion of their review of the year-end figures, the opinion letter expresses judgment on whether the management-prepared financial statements are "presented fairly" in accordance with GAAP and accurately reflect the financial status of the nonprofit. A clean opinion letter indicates full compliance with generally accepted accounting practices (GAAP). A qualified or

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adverse opinion letter is a judgment by the external auditor that he or she believes that an organization's financial statements are not in compliance with GAAP. A disclaimed opinion letter is a judgement by the external auditor that he or she is unable to form an opinion on a nonprofit's financial statements due to incomplete information provided by management.

P

Permanent restriction: A donor-imposed restriction stipulating that resources be maintained permanently but permitting the organization to use or expend part or all of the income (or other economic benefits) derived from the donated assets.

Permanently restricted net assets: The part of the net assets of a nonprofit organization resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

Plant fund: An accounting unit (see Fund) used by some organizations to record transactions related to land, buildings, vehicles, and equipment.

Plant ledger: A subsidiary ledger of the general ledger, where all the elements for each individual asset, such as the asset's description, original cost, date of acquisition, annual depreciation expense, and accumulated depreciation.

Pledge: A written or oral agreement by a donor to make a contribution to a nonprofit organization. A promise to pay.

Prepaid expense: An expense paid in one accounting period, where the benefit of the expense is not yet received by the organization paying it, and recognition is delayed until a future accounting period after the benefit of the expense is received. Example: A rent payment for January is made before the end of the preceding December and thus is correctly classified as a prepaid rent.

Private inurement: Improper receipt of a financial benefit by a person who is an "insider" to a nonprofit organization. Insiders include members of the governing board and senior management, close members of their families, and other organizations with which they are connected. Illegal under Section 501(c) of the Internal Revenue Code, private inurement can lead to financial penalties against both the receiver of the benefit and the persons in the organization who authorized the benefit, along with possible loss of tax-exempt status.

Program expense: An expense that directly or indirectly supports specific activities constituting an organization's purpose(s) or mission(s) for which it exists. (See Supporting expense.)

Promise to give: A written or oral agreement to contribute cash or other assets to an entity. A promise to give may be either conditional or unconditional. The word pledge is often used interchangeably.

Q

Qualified or adverse opinion letter: See Opinion letter.

Quasi-endowment fund: Unrestricted endowment. (See Endowment fund.)

Quick ratio: Measures the organization's ability to meet short-term obligations from its most liquid, or quick, assets. It compares assets that are quickly and easily convertible into cash (such as cash, cash equivalents, and accounts receivable) to the organization's current liabilities. (Also known as asset ratio.)

R

Ratio analysis: A method for taking two or more informational elements and utilizing them together to obtain additional information. Financial ratio shows relationships between raw data in the financial statements, usually expressed as percentages.

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Reclassification: The movement of resources between classes of net assets. The most frequent reclassification is movement from temporarily restricted net assets to unrestricted net assets upon the fulfillment or expiration of a donor-imposed temporary restriction.

Reserves: Not a precisely defined term, but often used to refer to the amount of resources currently available to an organization to use in any way it chooses (presumed to be limited to activities consistent with its mission.) Many in the nonprofit industry define reserves as being the equivalent of net assets (i.e., assets minus liabilities). This, however, fails to take into account the fact that reserves should be available to be spent in a time of need. Thus the figure should not include illiquid assets such as land and buildings, nor be reduced for such long-term debts as mortgages. In precise accounting terms, reserves might be more accurately defined as the unrestricted net asset balance less equity in property and equipment, plus the expendable temporarily restricted net asset balance, plus the deferred revenue that will become available within one year.

Restricted assets: See Net assets.

Restricted support: Donor-restricted revenues from contributions that increase either temporarily restricted net assets or permanently restricted net assets. (See Unrestricted support.)

Restriction: See Donor-imposed restriction.

Return on net assets ratio: Measures profitability based on net revenues by comparing a nonprofit's excess of support and revenues over expenses to its unrestricted net assets.

Revenue: Technically, income from providing goods or services to customers (clients, patrons, members, and so forth) and from other earning activities such as investments. Practically, is frequently used to include both earned income (from exchange transactions) and income from contributions.

S

Sarbanes-Oxley (SOX): A law passed by the U.S. Congress in 2002 in response to abuses in the for-profit business world. While generally applicable to public companies, SOX requires that nonprofit organizations have and ensure compliance with policies that prohibit retaliation against whistleblowers and prohibit alteration or destruction of documents that are relevant to a lawsuit or regulatory proceeding. In addition, SOX sets forth a number of good practices for all organizations, such as having an audit committee (with at least one financial expert) that is completely responsible for the relationship with the outside auditor.

Spending rate: One method of computing the amount of investment return to be considered as available for current use under the "total return approach."

Split-interest gift: General term used to describe various types of gifts under which the benefit of the resources involved is split between the donor (or other designated person) and a charity. Includes gift annuities, remainder trusts (annuity trusts and unitrusts), lead trusts, and pooled income funds.

Statement of Activities (also known as the **Income Statement**): A compilation of all revenues and expenses of a nonprofit organization; it also shows the excess or deficit of revenues over expenses and the change in net assets.

Statement of Cash Flows: Reports the sources and uses of the organization's short-term cash and cash equivalents for the period concurrent with the statement of activities. It is a summary of where the organization's cash came from and how it was used.

Statement of Financial Position (more commonly known as the **Balance Sheet**): Represents and displays all of an organization's financial assets, liabilities, and net assets at a snapshot in time, usually the end of an accounting period (month, quarter, year), and conforms to the following equation: assets = liabilities + net assets.

Statement of Functional Expenses: Displays all income and expenditures according to their primary functional classifications, such as program services, management and general expenses, and fundraising.

Stipulation: An expression by a donor, in connection with a contribution or a promise to make a contribution, constituting a condition, a restriction, or both.

GLOSSARY

of Financial Terms

Support: Income derived by a nonprofit from contributions and grants.

Supporting expense: Expenses other than program expenses. Supporting expenses include management and general, fundraising, and, for a membership organization, membership development expenses.

T

Tax exempt: Literally, statutorily exempt from tax. Often erroneously used interchangeably with not-for-profit/nonprofit; the two terms have completely different meanings, although in practice they overlap considerably.

Temporarily restricted net assets: The part of the net assets of a nonprofit organization resulting from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations.

Temporary restriction: A donor-imposed restriction that permits the donee to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the organization.

Term endowment: Temporarily restricted endowment. (See Endowment fund.)

Total return approach: A method of managing endowment assets in which a portion of capital gains is made available for current use under a formula approved by an organization's governing board.

Treasurer: The key volunteer financial role involving overseeing financial operations. Most nonprofits charge the treasurer with the legal responsibility for custody of the organization's funds and securities; keeping full and accurate account of all receipts and disbursements, the books, and financial records of the organization; and providing periodic reports to the full board. In smaller organizations, the treasurer may have hands-on responsibilities; in large organizations, the treasurer remains legally responsible for these functions, even though a staff member performs them.

Trending: The display and analysis of data or information over time.

U

Uncertain: Less than likely. Judgment is often required to assess whether the probability of an occurrence should be considered as uncertain versus likely.

Unconditional promise to give: A promise to give that depends only on passage of time or demand by the promisee for performance. (Contrast with Conditional promise to give.)

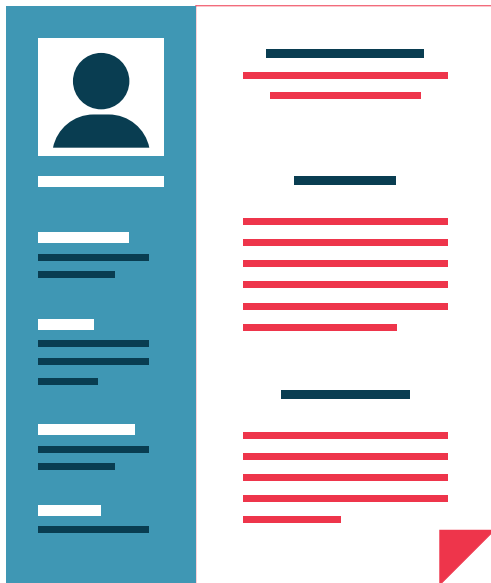
Unrelated business income (UBI): Income from a trade or business, conducted by a tax-exempt organization, that is not substantially related to the purposes for which the organization is exempt. Net income from such a business is taxable. (See Internal Revenue Code Sec. 512 and 513 for the precise definition.)

Unrestricted net assets: The part of net assets of a nonprofit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Unrestricted support: Revenues from contributions that are not restricted by donors. (Contrast with Restricted support.)

W

Whistleblower: An employee, former employee, volunteer, or member of an organization who makes a good faith effort to disclose improper activities to those who have the power to take corrective action. The misconduct may be a violation of state or federal law, rule, or regulation; theft or misuse of organization funds; gross misconduct or inefficiency; or any condition that may significantly threaten the health or safety of employees or the public.



Board Member JOB DESCRIPTION

EXPECTATIONS OF THE BOARD AS A WHOLE

The mission of ABC Organization is [mission].

As the highest leadership body of the organization and to satisfy its fiduciary duties, the board is responsible for

- determining the mission and purposes of the organization
- selecting and evaluating the performance of the CEO/ executive director
- strategic and organizational planning
- ensuring strong fiduciary oversight and financial management
- fundraising and resource development
- approving and monitoring ABC Organization's programs and services
- enhancing ABC Organization's public image
- assessing its own performance as the governing body of ABC Organization

EXPECTATIONS OF INDIVIDUAL BOARD MEMBERS

Each individual board member is expected to

- know the organization's mission, policies, programs, and needs
- faithfully read and understand the organization's financial statements
- serve as active advocates and ambassadors for the organization and fully engage in identifying and securing the financial resources and partnerships necessary for ABC Organization to advance its mission
- leverage connections, networks, and resources to develop collective action to fully achieve ABC's mission
- give a meaningful personal financial donation
- help identify personal connections that can benefit the organization's fundraising and reputational standing, and can influence public policy
- prepare for, attend, and conscientiously participate in board meetings
- participate fully in one or more committees

BOARD MEMBERS ARE ALSO EXPECTED TO

- follow the organization's bylaws, policies, and board resolutions
- sign an annual conflict-of-interest disclosure and update it during the year if necessary, as well as disclose potential conflicts before meetings and actual conflicts during meetings
- maintain confidentiality about all internal matters of ABC Organization

SAMPLE CHIEF EXECUTIVE PROFILE

NATIONAL ASSOCIATION OF NONPROFIT CHIEF EXECUTIVE OFFICERS — CHIEF EXECUTIVE PROFILE

The National Association of Nonprofit Chief Executive Officers (NANCEO) is looking for an outstanding individual with strong leadership and management skills to become its next chief executive. NANCEO invites applications from and nominations of candidates with the skills, characteristics, and experience described below. Applications and nominations will be accepted until [date].

Organizational Background

NANCEO is a national, nonprofit organization based in Chicago whose mission is to advance the effective practices of chief executives for the benefit of the nonprofit organizations they serve. Established 10 years ago by several organizations and nonprofit leaders, NANCEO provides resources, programs, and services to staff leaders, volunteers, corporations, foundations, academic centers, journalists, consultants, and others with an interest in the leadership and management of nonprofit organizations.

NANCEO's programs and services are designed to identify and support effective leadership in the nonprofit sector, promote effective leadership through educational programs and peer networking, and work with partners to promote new models and new approaches to nonprofit leadership. Its key programs and services are

- workshops and training programs for nonprofit leaders to share their experiences and learn from their peers
- leadership and management consultants who work directly with nonprofit organizations to design customized strategies to address an organization's needs
- tools on nonprofit management and governance, including more than 500 booklets, books, videos, CDs, and audiotapes
- an annual conference that brings together more than 1,000 professional and volunteer leaders of nonprofit organizations

Critical Leadership Issues

The overarching responsibility of the new chief executive is to lead NANCEO to new levels of achievement. NANCEO has enjoyed considerable growth since its creation. It now has more than 100,000 members from the nonprofit community and support from more than 50 foundations, corporations, and individuals. This year, approximately 60 percent of NANCEO's revenue will come from earned income primarily from publications sales, membership dues, and professional development fees. With a budget of \$5 million, a staff of 30 and many knowledgeable consultants in the field carry out NANCEO's programs. A 15-member board of directors, comprising individuals who lead and govern nonprofit organizations and bring diverse experience, governs the organization.

The outgoing chief executive of NANCEO, who is departing to pursue new challenges, has been a highly visible and respected leader. The new chief executive will need to build upon the foundation established by the departing chief executive, while exploring new approaches and directions. The new chief executive will be expected to help review NANCEO's core values, its mission, and how it operates in relation to its member, partners, and the general public. He or she will also be expected to aggressively pursue currently successful strategies as well as to identify new opportunities to broaden NANCEO's funding base, increase membership growth, create long-range goals and plans, increase public understanding and visibility of NANCEO's mission and programs, and strengthen its infrastructure.

NANCEO is an extremely vibrant and growing organization that is poised to meet new challenges that NANCEO's chief executive, the nonprofit community, and the profession of nonprofit chief executive officer face. Now more

than ever, nonprofit organizations are seeking chief executive officers who can provide leadership and manage the strategic, programmatic, financial, and management operations of their organizations. The rapid pace of change has increased the demand for leaders who can create a climate for learning, innovation, and adaptive change. It has also resulted in increased turnover and shorter terms of service for nonprofit chief executives. NANCEO has the opportunity to grow its programs so that it can serve a larger number of organizations and provide them with a broader array of services to strengthen their capacity to grow, attract, support, and retain effective chief executives.

Key Responsibilities

The chief executive has the following responsibilities:

1. Serve as NANCEO's most visionary and strategic thinker to anticipate and analyze trends in the field of nonprofit leadership and to work with the board and staff to position the organization to grow and thrive.
2. Support the board and staff to develop a process to create, implement, monitor, and adjust a strategic and tactical plan.
3. Manage a \$5 million budget, including developing annual operating budgets that reflect the strategic goals for the organization.
4. Generate revenue by creating new programs, products, and services that support NANCEO's mission and raise funds from current and new foundation, corporate, and individual donors.
5. Provide leadership, guidance, and development to a staff of 30 people.
6. Promote higher public awareness and visibility for the issues confronting nonprofit leaders, including serving as the chief spokesperson and advocate for the organization's mission programs and services.
7. Lead efforts to create new alliances, partnerships, and collaborations with other organizations in the nonprofit, private, and public sectors that will help NANCEO advance its mission.
8. Engage and work in collaboration with the board of directors on matters of governance, mission, vision, and strategy.
9. Expand NANCEO's membership by recruiting new members and retaining existing members.
10. Lead a continuous process of strategic thinking that will enable the board and staff to scan internal and external trends, revisit assumptions and directions, and make meaningful changes in direction as needed.

Desired Skills, Characteristics, and Competencies

The chief executive should have the following professional qualifications and personal characteristics:

1. A keen interest, genuine passion for, and deep personal commitment to NANCEO's mission to advance the effective practice of chief executives for the benefit of the nonprofit organizations they serve.
2. The capacity to facilitate visionary thinking and to articulate a clear, collective vision that will motivate and inspire the staff and board.
3. The ability to develop, motivate, and supervise a committed and talented professional staff and large corps of volunteers who help deliver training programs and other services.
4. The commitment and capacity to engage and support a board that is active and deeply engaged in its role as a fiduciary, steward, and strategic institutional asset.
5. Naturally creative, entrepreneurial, and eager to find innovative ways to launch and sustain new programs and services, reach out to new constituents, and expand NANCEO's vision to new horizons.
6. A strong public presence and the ability to represent NANCEO effectively before a wide range of audiences.
7. Personal qualities of commitment, integrity, and sensitivity to the needs of others.
8. Culturally sensitive and able to work effectively with diverse groups of people.

9. Energetic, self-directed, and well organized to handle multiple tasks, select priorities, and focus on the issues that will contribute most to the growth and success of NANCEO.
10. A good listener and a creative problem solver who is politically savvy, patient, collaborative, and able to reconcile divergent points of view.
11. The ability to honor the past without being inhibited by it.

Ideal Experience

1. At least 10 years of broad-based senior management experience, including serving as a nonprofit chief executive.
2. A demonstrated track record of building an organization at the national, regional, or local level.
3. A lead role in generating revenue (both earned and contributed income) for an organization as either a volunteer or a professional.
4. Measurable results in hiring, mentoring, developing, leading, and retaining staff and in engaging and supporting a nonprofit governing board.

Compensation

Salary will be commensurate with experience and qualification. Compensation includes a comprehensive benefits package.

Guidelines for Candidates

Nominations and applications should be sent to:

The Search Committee, National Association of Nonprofit Chief Executive Officers, P.O. Box NANCEO, Chicago, Illinois

Candidates should provide a cover letter describing their interest in and qualifications for the position, a résumé, and the names and telephone numbers of five professional references. References will not be contacted until candidates have been notified. For full consideration, materials should be received by [date]. For additional information about NANCEO and this position, please visit our website.

Source: [*Chief Executive Succession Planning: Essential Guidance for Boards and CEOs, Second Edition*](#)

Nonprofit Organizational LIFECYCLE ASSESSMENT TOOL

This assessment tool is designed to summarize — in an easy-to-use — chart form the leadership capacity necessary at each stage of the nonprofit lifecycle. It can help focus on which developmental stage or stages your nonprofit is currently passing through and whether its current executive and board leadership capacities are sufficient to sustain it at that stage.

Space is provided below each capacity summary for your own assessment and comments. It is a useful instrument at any time, but particularly when a nonprofit is undertaking an organizational assessment or strategic planning process.

Additional charts included in this assessment tool can be found in [Navigating the Organizational Lifecycle: A Capacity Building Guide for Nonprofit Leaders](#).

LEADERSHIP CAPACITY	START-UP (to begin)	ADOLESCENT (to grow)	MATURE (to sustain)	STAGNANT (to renew)	DEFUNCT (to dissolve)
Board Development	<ul style="list-style-type: none"> • Organization establishes a small homogenous board. • Board develops a clear purpose and vision that is understood by itself, staff, and volunteers. • Board plays a hands-on role in overseeing and managing the organization. • Board conducts an informal performance review of the chief executive. 	<ul style="list-style-type: none"> • Organization expands the size of the board. • Board's role is formalized and there are job descriptions for board members. • Board articulates a clear mission, vision, and set of values and they are well understood by board, staff, and volunteers. • Board clarifies its role in relation to chief executive, increases its planning function, and develops a deliberate decision-making process. • Board conducts a formal annual evaluation of the chief executive and talks about a succession plan. • Board discusses how it is performing and how it needs to improve. 	<ul style="list-style-type: none"> • Organization has a formal nominating process and adds people to the board who represent the community that the organization serves and have skills that the organization requires, such as program, financial, and legal expertise. • Organization affirms or revises its mission, vision, and values, and they are well understood by board, staff, and volunteers. • Board clarifies its role in relation to the chief executive, reduces its operational role, and increases its policy and fundraising function. • Board has committees, work groups, or task forces and, possibly, advisory committees. • Board conducts a formal annual evaluation of the chief executive and creates a succession plan. 	<ul style="list-style-type: none"> • Organization retires some veteran board members who are not engaged and adds new board members who support the renewal effort. • Organization affirms or revises its mission, vision, and values, and they are well understood by board, staff, and volunteers. • The board plays a hands-on role during the renewal effort and ensures the financial viability of the organization. • The board reviews the performance of the chief executive and, if necessary, terminates the person and hires a new one to lead the renewal effort. 	<ul style="list-style-type: none"> • Board ensures that the organization's dissolution process is responsible and orderly. • Board dissolves itself
Check the best fit for your organization					
Comments on rationale for choice and how much this matters:					

Nonprofit Organizational LIFECYCLE ASSESSMENT

LEADERSHIP CAPACITY	START-UP (to begin)	ADOLESCENT (to grow)	MATURE (to sustain)	STAGNANT (to renew)	DEFUNCT (to dissolve)
Executive Leadership Development	<ul style="list-style-type: none"> • Volunteer or staff person founds organization or board hires staff leader. • Staff leader is entrepreneurial and adept at establishing and growing the organization. 	<ul style="list-style-type: none"> • Chief executive's role is distinct in relation to the board. • Chief executive disconnects personal and organizational needs as the organization ages and expands. • Chief executive has the ability to manage the growth of the organization. 	<ul style="list-style-type: none"> • The chief executive and board have distinct roles and they hold each other accountable. • Chief executive is adept at managing a large staff and complex finances and sustaining the organization. • Chief executive forms a strong senior management team, including possibly a chief operating officer. 	<ul style="list-style-type: none"> • Chief executive is adept at managing a turnaround process. 	<ul style="list-style-type: none"> • Chief executive completes his or her duties and leaves the organization.
Check the best fit for your organization					
Comments on rationale for choice and how much this matters:					
Leadership Transitions	<ul style="list-style-type: none"> • Board hires chief executive. • Board appoints board chair. 	<ul style="list-style-type: none"> • Board ensures that chief executive has the ability to manage the growth of the organization, and, if necessary, hires a new chief executive who is more able to do so. • Succession plans exist for staff and board leadership. 	<ul style="list-style-type: none"> • Board ensures that chief executive has the ability to sustain the organization and, if necessary, hires a new chief executive who is more able to do so. • Succession plans exist for executive and staff leadership. 	<ul style="list-style-type: none"> • Board determines if chief executive is able to renew the organization and, if necessary, hires a new chief executive who is more able to do so. 	<ul style="list-style-type: none"> • Chief executive leaves job and board dissolves itself in an orderly manner.
Check the best fit for your organization					
Comments on rationale for choice and how much this matters:					